

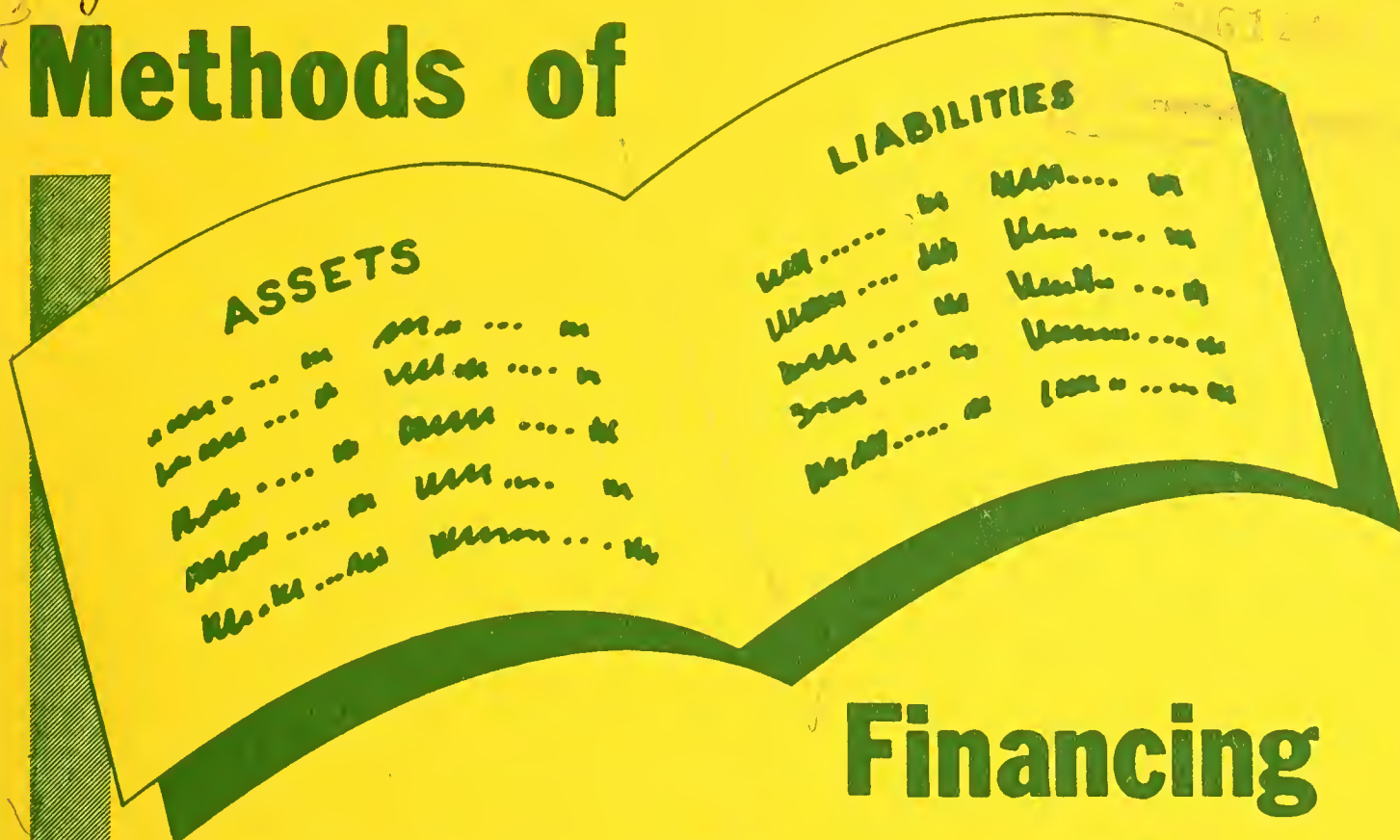
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Methods of



Financing Farmer Cooperatives

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U.S. Farmer Cooperative Service,
U. S. Department of Agriculture

General Report 32
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FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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Highlights

Lack of capital and too small a capital structure are major problems facing many farmer cooperatives today. High prices tie up large amounts of capital in inventory and accounts receivable. The necessity for carrying many more items and a much wider range of goods than formerly has put pressure on the capital structure of hundreds of farmer cooperatives. Likewise the high cost of machinery and construction has placed definite limitations on the expansion possibilities of farmer cooperatives operating on a pay-as-you-go basis and relying largely on equity or member financing for their capital requirements.

Of the farmer cooperatives included in this study, 45 percent showed no loans whatsoever outstanding. This would indicate that a relatively large group of farmer cooperatives may not be taking advantage of the credit facilities available. Many farmers have an aversion to debt and this psychology may be reflected in decisions affecting their cooperatives.

However, in attempting to secure all their financial requirements from mem-

bers and patrons many of these cooperatives may be handicapping their growth possibilities. It should be borne in mind at this point, however, that short-term borrowings made and repaid during the year were not reflected in the 45 percent figure unless they happened to be outstanding at the close of the fiscal year.

This study of the financing methods and problems of farmer cooperatives is based on replies from 898 local and 259 regional associations, a total of 1,157 marketing and farm supply cooperatives. These represent almost 60 percent of the 433 regionals (exclusive of bargaining associations) listed with Farmer Cooperative Service and just under 10 percent of the 9,360 locals. Data reported here are for the 1,157 associations used in the study, except for the national estimates which are for the entire list (exclusive of bargaining associations) of 9,793 marketing and farm supply associations. All data were obtained for association fiscal years ending in 1954.

Some major highlights of the study follow:

National Estimates for 9,793 Marketing and Farm Supply Cooperatives at End of Fiscal Year 1954

- Gross assets -- estimated at \$3.6 billion
- Gross members' equity -- estimated at over \$2 billion
- Gross loans -- \$914 million outstanding
- Total equity capital -- 65 percent was in marketing cooperatives and 35 percent in farm supply cooperatives
- Total net worth -- 62 percent was in local cooperatives and 38 percent in regional cooperatives
- Members' equity -- equaled 58 percent of asset values
- Regional cooperatives -- owned about half the total assets but accounted for less than 5 percent of total number of associations.
- Borrowed capital -- equaled 13 percent of the assets of local associations on the average
- Borrowed capital -- equaled 39 percent of the assets of regional associations on the average

● Sources of capital -- locals relied more heavily on internal or membership financing and regionals more heavily on borrowed capital

● Borrowed capital -- regionals accounted for over 74 percent outstanding at close of fiscal 1954

● Borrowed capital -- marketing cooperatives accounted for 82 percent and farm supply cooperatives for 18 percent

● Marketing associations -- grain, dairy, and fruit and vegetable cooperatives, in that order, were greater in

number and had greatest member investments

● Distribution of net savings and margins -- to members -- in 1954 farmer cooperatives had more than \$332 million before elimination of duplications in intercooperative business

● Net savings and margins on 1954 business -- estimated at between \$250 million and \$275 million, or equivalent to 2.75 percent on \$9.5 billion after elimination of intercooperative business

● Revolving fund capital -- over \$1.1 billion at end of fiscal year 1954

Sources of Equity Capital - 1,157 Associations

● Farmer cooperatives were using four methods of acquiring capital -- selling securities, borrowing, retention of net margins or savings, and outright gift of capital.

● Members acquired equity capital in their associations by purchase of securities, authorized deductions, refunds retained, or combinations of two or more methods.

● Of total equity capital 61 percent was acquired by refunds retained, 15 percent by purchase of securities, 10 percent by authorized deductions, and the balance by a combination of methods.

● Members of regionals purchased outright over 16 percent of total equity capital, compared with 11 percent in locals.

● Outright purchase of equity capital was much more prevalent with farm supply associations than with marketing associations -- 9 percent compared to over 23 percent.

● Of total equity capital of marketing associations 18 percent was acquired by authorized deductions. This method of acquiring capital was insignificant with farm supply associations.

Types of Equity Capital - 1,157 Associations

● Farmer cooperatives had about 19 percent of their equity capital in common stock; 22 percent in preferred stock; 39 percent in allocated capital credits without maturity dates; 8 percent in certificates of equity with maturity dates; and 10 percent in unallocated reserves. Memberships accounted for only two-tenths of 1 percent of total cooperative equity capital.

● Over 80 percent of the farmer cooperatives had some portion of equity capital in allocated book credits without maturity dates.

● About 38 percent had preferred stock; 71 percent had common stock. Only 4 percent had securities with definite due dates.

● Less than 9 percent of the farmer cooperatives obtained equity by sale of memberships.

● Seventy (70) percent of the farmer cooperatives had some unallocated reserves.

● Among the marketing cooperatives rice and tobacco associations had a larger percentage of their equity capital in common stock than other commodity groups.

● Nearly 94 percent of the equity capital of wool regional marketing cooperatives was in the form of allocated capital credits. Poultry marketing regionals showed 88 percent of their equity capital in the form of book credits.

Dividend and Interest Rates on Equity Capital - 1,157 Associations

- Cooperatives paid no interest on about 65 percent of their equity capital.
- Where cooperatives paid interest on equity capital, 4 percent was the most common rate.
- More farm supply cooperatives paid interest and dividends on equity capital than marketing associations.
- Over 70 percent of farmer cooperatives had some equity capital in the form of common stock. No dividends were paid on over half of this capital.
- Over 41 percent of farmer cooperatives with common stock paid some dividends on the stock, but total dividends on all common stock amounted to less than 3 percent of total net savings.
- Over 30 percent of total preferred stock paid no dividends.
- When dividends were paid on preferred stock, the most popular rate was from 4 percent to less than 5 percent.
- Two-thirds of the associations with preferred stock in 1954 paid some cash dividends that year.
- Dividends on preferred stock took 3 percent of total net savings in 1954.
- Certificates of equity and allocated book credits accounted for 47 percent of equity capital. Of this capital 78 percent was non-interest bearing.

Borrowed Capital - 1,146 Associations

- Of all associations included in the sample, 55 percent, had some borrowed capital outstanding at the close of fiscal year 1954; 45 percent were entirely debt free.
- Of locals, 52 percent had some borrowed capital, and 66 percent of regionals.
- Of total borrowed capital, 91 percent was borrowed by 163 regionals whereas 469 locals borrowed 9 percent.
- Banks for cooperatives were supplying almost 58 percent of the outstanding borrowed capital.
- Of the associations with borrowed capital, 50 percent were getting all or a part from banks for cooperatives.
- Certificates of interest with definite maturity dates ranked next to banks for cooperatives in importance as a source of credit.
- Marketing cooperatives made more use of banks for cooperatives as a source of credit than farm supply associations.
- Farm supply associations made wider use of certificates of interest than marketing cooperatives.
- Regional associations relied more on banks for cooperatives than locals, and locals depended more on commercial banks than regionals.
- Cotton, dry bean, pea, and rice cooperatives obtained from 90 to 100 percent of their borrowed capital from the banks for cooperatives.

Distribution of Savings - 1,157 Associations

- Cooperatives retained about 58 percent of net savings as allocated book credits in 1954.
- Seventy-three (73) percent of the associations allocated at least a portion of savings.

● Cooperatives paid out 40 percent of 1954 net savings in cash -- 28 percent in members' and patrons' cash refunds; 5.6 percent for Federal and State income taxes; and 6 percent in dividends on common and preferred stock and interest on certificates of interest.

● Thirty-four (34) percent distributed a part of savings in cash refunds.

● Thirty-seven (37) percent paid some Federal income taxes in 1954.

● Forty-six (46) percent retained a portion of 1954 net savings in form of unallocated reserves.

● Tobacco regional marketing associations paid out nearly 86 percent of their savings in cash refunds. Cotton regionals paid out nearly 54 percent in cash refunds.

Revolving Fund Capital - 1,157 Associations

● Sixty-two (62) percent used the revolving fund method of financing.

● More regionals used this method than locals -- 71 percent for regionals compared to 59 percent for locals.

● Eighty-four (84) percent of total revolving fund capital was in regionals.

● Revolving fund capital increased by 63 percent in the 5-year period, 1949 to 1954.

● The revolving fund period was about 10 years for both local and regional associations.

● Grain regionals required about 14 years to revolve their capital whereas poultry regionals required 4 years.

Methods of Financing Farmer Cooperatives

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Management Services Division

Farmer Cooperatives, because of their public nature, conduct their businesses more or less in a "fish bowl" -- in full view of anyone who cares to look. Few businesses give their owners as much information about their operations as most farmer cooperatives supply their members and patrons. Yet farmer cooperative financing methods are not understood by many people either inside or outside cooperative circles.

In reality, farmers finance their cooperatively-owned businesses by using all the standard methods employed by other business corporations. These include common stock, preferred stock, memberships, various kinds of certificates, bonds, reserves, and borrowed capital.

There are, however, some significant differences in the methods used by farmer cooperatives to acquire capital and those used by other business corporations. For example, customers of other corporations supply little, if any, of the capital needed to run those businesses. In contrast, most of the money required to operate a farmer cooperative comes from farmer members who own and use it to market their crops, supply their farm needs, or furnish various farm services.

In a farmer cooperative, most -- if not all -- of the capital supplied by a member is allocated to him individually. For example, retained savings arising from patronage are allocated to him on the books of his cooperative each year. Many farmer cooperatives make provision for revolving or returning to the member the capital he furnished some years earlier. These are some of the financing characteristics that distinguish

farmer cooperatives from other business enterprises performing the same services.

Farmer members supply their cooperative with capital in one or more of the following ways: (1) Authorized capital deductions from sales proceeds, (2) purchase of association securities, (3) retained savings and net margins, and (4) outright gift of capital.

The general purpose of this study was to survey existing cooperative financing methods in current use and report the findings for the assistance and guidance of all farmers' cooperatives. The project was undertaken in direct response to a request of the National Council of Farmer Cooperatives and the American Institute of Cooperation. It fulfills in part a long felt need for an examination and analysis of the methods of financing employed by farmer cooperatives.

The report discusses the various means farmer cooperatives use to accumulate funds to meet their capital needs. It summarizes the financial status of farmer cooperatives. It analyzes sources of farmer cooperative borrowings, the nature and amount of membership or equity capital, the methods used for distributing annual margins and savings, and the uses farmer cooperatives make of the revolving fund system of financing. In addition, the report treats some of the more pressing financial problems reported by cooperatives.

The study is also directed toward answering such detailed questions as: What types of equity or membership capital do farmer cooperatives use most commonly? How is the capital acquired by the owner? What rates of interest do farmer cooperatives pay on their equity capital? To what extent do farmer cooperatives use borrowed capital? How much of the net savings and margins of farmer cooperatives are distributed in

Table 1. - Number of farmer cooperatives, by specified groupings, and number of each group included in nationwide survey, fiscal year 1954

Association group	Number of associations listed with Farmer Cooperative Service, 1954			Total	Number of associations included in nationwide survey, 1954 ¹			
	Bargaining	Local	Regional		Bargaining	Local	Regional	Total
Marketing and service:								
Cotton and cotton products	-	520	26	546	-	47	19	66
Dairy and dairy products	209	1,616	51	1,876	-	172	43	215
Dry beans and peas	-	6	9	15	-	-	5	5
Fruits and vegetables	12	684	37	733	-	50	25	75
Grain	-	2,130	32	2,162	-	269	24	293
Livestock and livestock products	-	474	43	517	-	20	28	48
Miscellaneous marketing	-	61	3	64	-	5	2	7
Nuts	-	36	6	42	-	5	5	10
Poultry and eggs	-	137	17	154	-	12	8	20
Rice	-	52	6	58	-	8	4	12
Service	-	235	5	240	-	18	1	19
Soybean processing	-	-	8	8	-	-	6	6
Sugar and sugar products	43	-	20	63	-	-	6	6
Tobacco	-	-	29	29	-	-	11	11
Wool and mohair	-	152	25	177	-	-	8	8
<hr/>								
Total marketing and service	264	6,103	317	6,684	-	606	195	801
<hr/>								
Farm supply	-	3,257	116	3,373	-	292	64	356
<hr/>								
Total marketing, service, and farm supply	264	9,360	433	10,057	-	898	259	1,157

cash, paid in taxes, or retained by the association? How many farmer cooperatives are using the revolving fund method of financing in some form? Are the funds actually revolving? What is the length of the revolving fund period?

As farmer cooperatives have grown and expanded their marketing, farm supply, and other business services, their financial demands have increased by leaps and bounds. This has created knotty, complicated financial problems for many cooperatives. More complete facts in composite form on their financial structure and methods of financing used will benefit existing cooperatives in their efforts to improve and strengthen their financial programs. The information should also be helpful in organizing farmer cooperatives.

All the figures and computations included in this report are based on the results of a nationwide survey, mostly

through mail questionnaires, of the financing methods used by 1,157 marketing and farm supply cooperatives in 1954. Parts of these data have been expanded to furnish national estimate totals for the 9,793 local and regional associations listed with Farmer Cooperative Service in 1954. Table 1 shows the total number of associations, by commodity groups, listed in 1954 and the number in each commodity group included in the study.

As shown in table 1, the associations were also classified as bargaining, local, or regional. Since most bargaining organizations operate with very little in the way of capital, they were excluded from this study. Of the total questionnaires, 259 were furnished by regional and 898 by local cooperatives.

Further details on selection of sample, classification of associations, and computation of national estimates, appear in the appendix, beginning on page 44.

Balance Sheet of Farmer Cooperatives -- National Estimates

Expansion of the data supplied by the sample of 1,157 cooperatives included in the study gave the following results.

Assets of 9,793 farmers' marketing and farm supply associations in the United States at the close of fiscal year 1954 were estimated at over \$3.6 billion (table 2). This figure included estimates

for all cooperatives listed with Farmer Cooperative Service in 1954 except 264 bargaining associations, but it was a gross figure since duplications arising from intercooperative investments were not eliminated. Regional cooperatives owned almost half of these assets, although they represented less than

Table 2. - *Assets, liabilities, and equity capital in farmer cooperatives at close of fiscal year 1954*¹

Type of association	Total number of associations	Assets	Liabilities and equity capital		
			Equity capital	Borrowed capital	Other liabilities
		(Thousands)			
Marketing	6,420	\$2,590,201	\$1,358,186	\$748,965	\$483,050
Locals	6,103	1,384,541	923,383	201,382	259,776
Regionals	317	1,205,660	434,803	547,583	223,274
Farm supply	3,373	1,026,975	728,995	165,406	132,574
Locals	3,257	473,378	374,855	34,080	64,443
Regionals	116	553,597	354,140	131,326	68,131
All associations	9,793	3,617,176	2,087,181	914,371	615,624
Locals	9,360	1,857,919	1,298,238	235,462	324,219
Regionals	433	1,759,257	788,943	678,909	291,405

¹Intercooperative investments not eliminated.

5 percent of the total number of associations throughout the country. Most regional cooperatives, however, are "owned" by local associations.

Assets of almost \$2.6 billion, or about 72 percent of the \$3.6 billion total assets of the 9,793 farmer cooperatives, were owned by 6,420 marketing associations, leaving \$1 billion, or 28 percent, in 3,373 farm supply associations.

Total net worth or equity capital of the 9,793 marketing and farm supply cooperatives at the close of fiscal year 1954 was estimated at over \$2 billion, before eliminating intercooperative investments. This figure represented almost 58 percent of the assets of the 9,793 cooperatives, and was more than double the amount of borrowed capital outstanding.

Over 62 percent of total equity capital of the 9,793 marketing and farm supply cooperatives was in the 9,360 local associations, leaving a little less than 38 percent in the 433 regional cooperatives.

The division, percentagewise, of total equity capital between marketing and farm supply cooperatives was 65 percent marketing and 35 percent farm supply. The classification of total number of associations into marketing and farm supply groups was also 65 percent marketing and 35 percent farm supply.

Marketing and farm supply cooperatives had over \$914 million in borrowed capital outstanding at the close of fiscal year 1954. This figure represented one-fourth of total assets and was less than one-half the equity capital figure of all farmer cooperatives.

A comparison of borrowed capital with the assets and equity capital for local and regional associations showed significant differences. Borrowed capital of all local associations in 1954 amounted to less than 13 percent of the total assets of all local associations; whereas, borrowed capital of all regional associations was equal to almost 39 percent of the assets of all regional associations. The figures showed equity capital, on the other hand, as equivalent to 70 percent of the assets of all local associations compared to 45 percent for all regional associations.

This is evidence that local cooperatives as a group relied more heavily on

internal or membership financing, whereas regionals as a group leaned more heavily on borrowed capital. This is further reflected in the fact that while less than 5 percent of all farmer cooperatives were classified as regionals, over 74 percent of the total borrowed capital was borrowed by these regional associations in 1954.

Marketing associations had outstanding borrowed capital amounting to almost \$749 million at the close of fiscal year 1954. This amounted to 82 percent of a total of \$914 million borrowed capital of all associations. Farm supply associations had a little over \$165 million in borrowed capital, or 18 percent of the total.

These figures on borrowed capital in no way measured the annual peak borrowings of farmer cooperatives because seasonal credit demands were not taken into consideration. These cooperatives used additional millions of dollars each year to finance their seasonal short-term capital needs. Very little of the seasonal borrowings were reflected in the \$914 million total unless they happened to be outstanding and unpaid at the time the balance sheets were prepared at the close of associations' fiscal years in 1954.

Liabilities of marketing and farm supply cooperatives, other than capital borrowed on a loan basis, were estimated at \$616 million as of the close of fiscal year 1954. This figure includes such items as accounts payable, proceeds payable, and deferred and accrued items.

Figure 1 shows equity capital, borrowed capital, and other liabilities as a percentage of the total assets of the 9,793 marketing and farm supply cooperatives.

Table 3 shows detailed figures of all marketing associations, except bargaining cooperatives, grouped according to the principal commodity handled. The ratios of equity capital and borrowed capital to total assets varied significantly by commodity groups, as shown by figure 2. A separate bar is shown for all local and regional associations, except bargaining, in each of the marketing groups to emphasize the financing differences between locals and regionals within the same commodity group as well as between different commodity groups.

Figure 1

Equity capital, borrowed capital and other liabilities as a percentage of total assets of 9,793 farmer cooperatives, Fiscal Year 1954

Percent

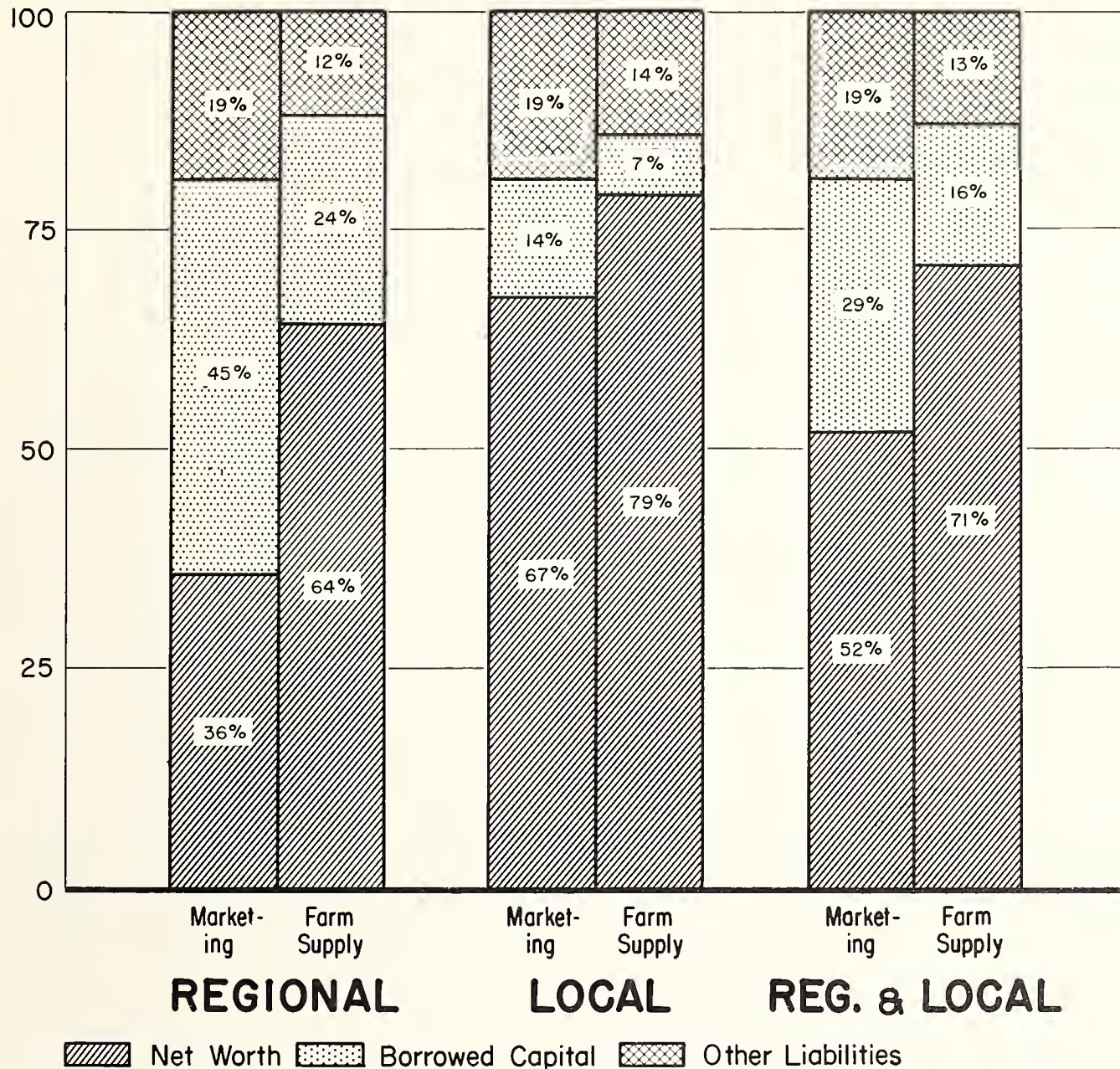


Table 3. - Assets, liabilities and equity capital in marketing cooperatives by commodity and service groupings at close of fiscal year 1954¹

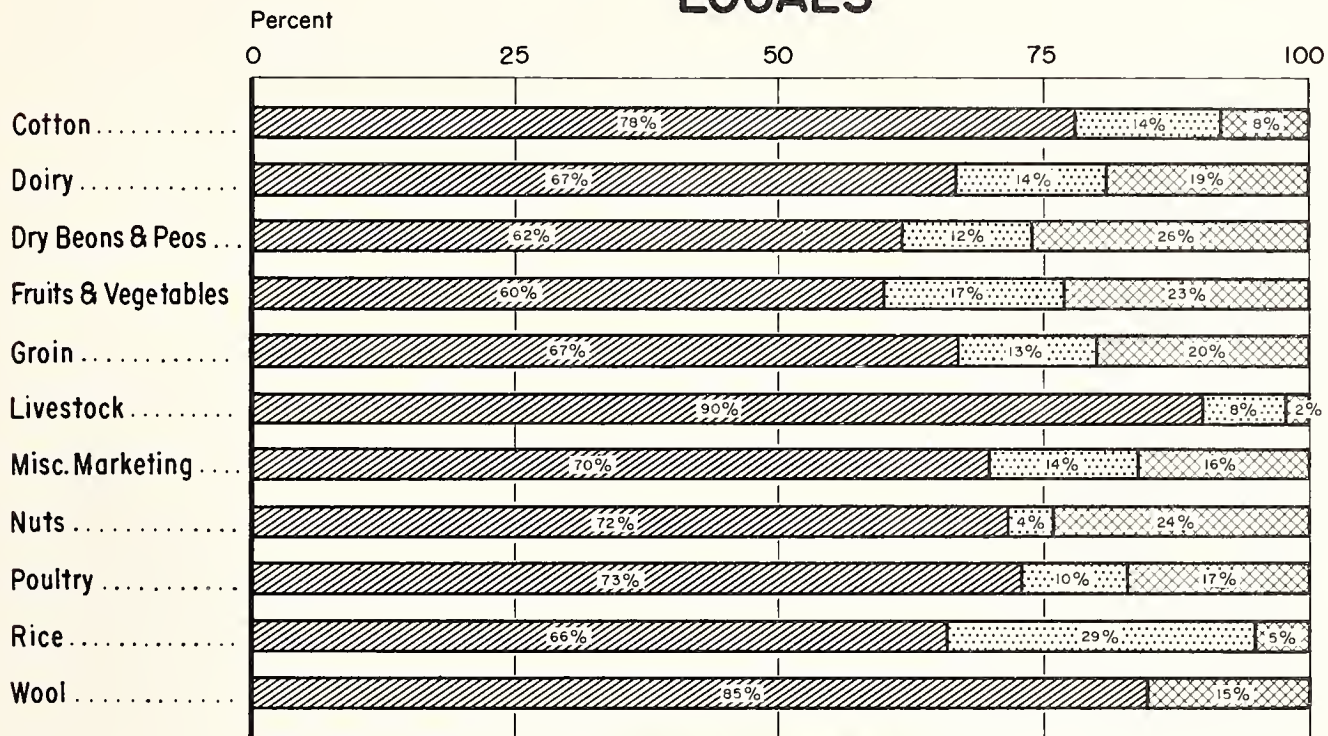
Associations grouped according to their principal activities	Number of associations	Assets	Liabilities and equity capital		
			Equity capital	Borrowed capital	Other liabilities
			(Thousands)		
Cotton and cotton products - total	546	\$305,984	\$106,760	\$144,107	\$55,117
Locals	520	86,373	67,041	12,239	7,093
Regionals	26	219,611	39,719	131,868	48,024
Dairy and dairy products - total	1,667	470,879	300,074	60,901	109,904
Locals	1,616	284,519	189,924	39,330	55,265
Regionals	51	186,360	110,150	21,571	54,639
Dry beans and peas - total	15	8,351	3,876	1,887	2,588
Locals	6	1,862	1,162	218	482
Regionals	9	6,489	2,714	1,669	2,106
Fruits and vegetables - total	721	469,931	272,631	92,162	105,138
Locals	684	317,687	191,909	55,116	70,662
Regionals	37	152,244	80,722	37,046	34,476
Grain - total	2,162	789,244	503,919	120,853	164,472
Locals	2,130	593,925	400,287	80,081	113,557
Regionals	32	195,319	103,632	40,772	50,915
Livestock and products - total	517	39,261	24,947	5,729	8,585
Locals	474	13,996	12,542	1,177	277
Regionals	43	25,265	12,405	4,552	8,308
Miscellaneous marketing - total	64	16,355	10,646	3,162	2,547
Locals	61	13,391	9,402	1,853	2,136
Regionals	3	2,964	1,244	1,309	411
Nuts - total	42	37,635	21,331	6,962	9,342
Locals	36	14,682	10,603	589	3,490
Regionals	6	22,953	10,728	6,373	5,852
Poultry and eggs - total	154	58,435	41,797	6,902	9,736
Locals	137	26,084	18,944	2,601	4,539
Regionals	17	32,351	22,853	4,301	5,197
Rice - total	58	43,973	25,034	15,411	3,528
Locals	52	19,010	12,526	5,541	943
Regionals	6	24,963	12,508	9,870	2,585
Soybean processing - regionals	8	7,170	4,212	2,900	58
Sugar and sugar products - regionals	20	14,638	10,040	2,883	1,715
Tobacco - regionals	29	291,568	18,077	266,601	6,890
Wool and mohair - total	177	23,746	5,776	15,868	2,102
Locals	152	98	83	-	15
Regionals	25	23,648	5,693	15,868	2,087
Service - total	240	13,031	9,066	2,637	1,328
Locals	235	12,914	8,960	2,637	1,317
Regionals	5	117	106	-	11
All marketing - total	6,420	2,590,201	1,358,186	748,965	483,050
Locals	6,103	1,384,541	923,383	201,382	259,776
Regionals	317	1,205,660	434,803	547,583	223,274

¹Duplications arising from intercooperative investments were not eliminated from these figures. Thus, the national estimates reported here represent gross figures for the local and regional cooperatives rather than net figures.

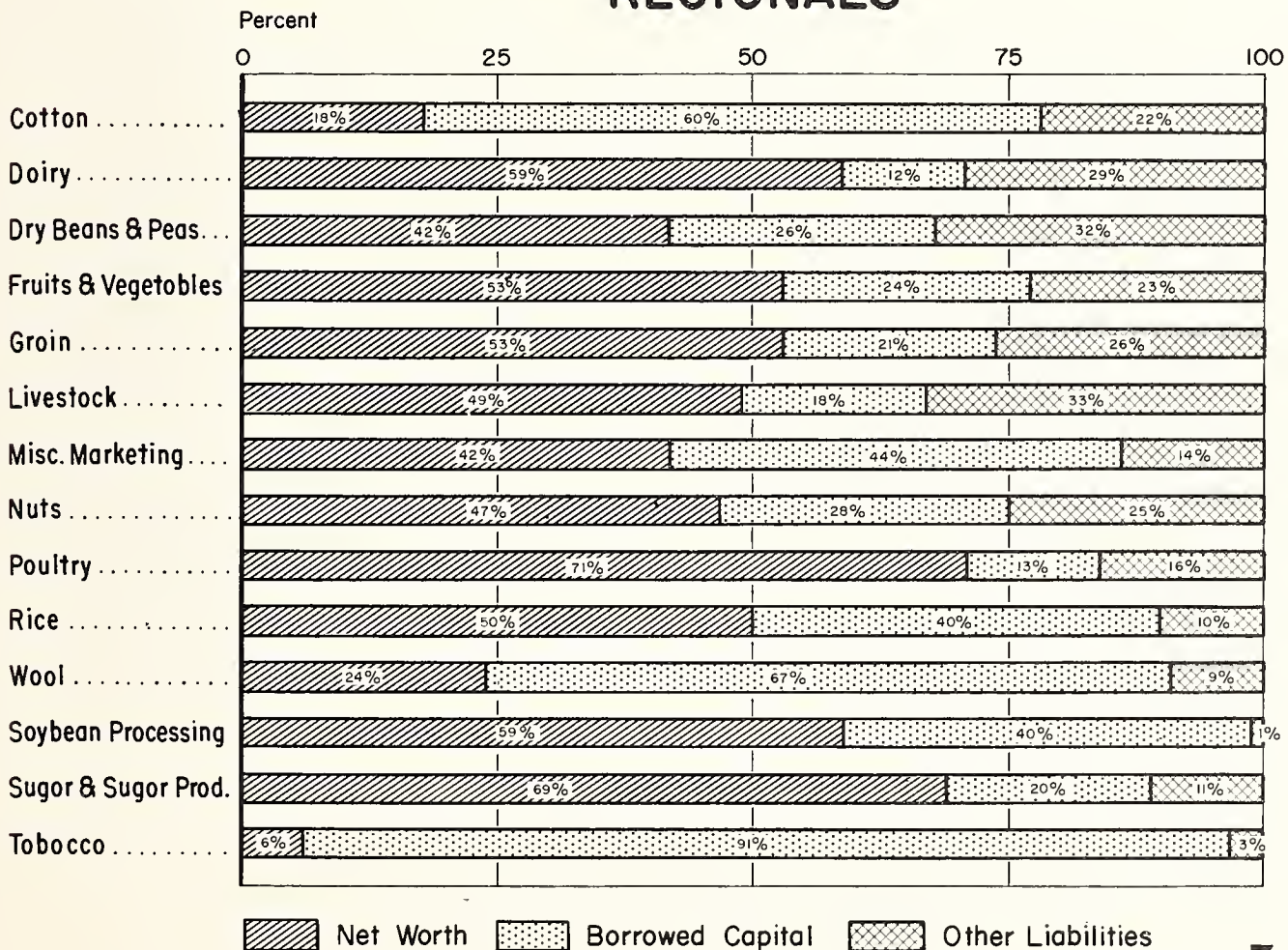
Figure 2

Equity capital, borrowed capital and other liabilities as a percentage of total assets of 6,420 marketing cooperatives, by principal commodity handled, at close of fiscal year 1954

LOCALS



REGIONALS



Types of Equity Capital

In a broad sense the equity capital of a farmer cooperative may be defined as its net worth. Thus, equity capital is the investment, exclusive of loan capital, members have in their cooperative. Such investment may or may not bear interest, and may or may not have a definite maturity date. Included in equity capital are such balance sheet categories as common stock, preferred stock, memberships, certificates of equity, book credits, and reserves.

Farmers' net equities in all marketing and farm supply cooperatives in 1954 were roughly \$1.8 billion. This figure represented investments in more than 10,000 farmer cooperatives. Of this sum over \$1.2 billion was invested in 6,684 marketing associations and \$592 million in 3,373 farm supply associations. This estimate included all local, regional, and bargaining associations listed with Farmer Cooperative Service in 1954.

Intercooperative investments, such as stock owned by a local in a regional association, or patronage refunds retained by a regional for capital purposes and appearing on the books of the local, were eliminated from the figure given. Thus, this estimate represented farmer's net interest or equities in their marketing and farm supply cooperatives. Investments of almost \$20 million in banks for cooperatives on December 31, 1954, made by marketing and farm supply cooperatives in behalf of their farmer patrons were included.

Within the marketing group, farmers' net equities in 1954 ranged from about \$3.4 million for cooperatives handling dry beans and peas to \$442 million for associations handling grain. Table 4 shows farmers' net equity capital in each commodity group of marketing associations and in cooperatives that provide farm supplies to farmer members.

Table 4. - *Farmers' net equity capital in all marketing and farm supply cooperatives, fiscal year 1954*¹

Associations grouped according to principal activities	Number of associations	Farmers' equities
		(Thousands)
Marketing		
Cotton and cotton products	546	\$96,760
Dairy products	1,876	274,878
Dry beans and peas	15	3,396
Fruits and vegetables	733	241,386
Grain	2,162	441,581
Livestock and livestock products	517	23,138
Miscellaneous marketing	64	10,185
Nuts	42	18,947
Poultry and eggs	154	41,113
Rice	58	21,936
Service	240	8,926
Soybean processing	8	3,691
Sugar and sugar products	63	8,859
Tobacco	29	18,186
Wool and mohair	177	3,862
Total	6,684	1,216,844
Farm supply	3,373	592,017
Total net equity capital	10,057	1,808,861

¹Intercooperative investments have been eliminated and bargaining associations are included.

The 1,157 cooperatives supplying data for this study reported total equity capital of over \$847 million at the close of fiscal year 1954. This represented the sum of the total equity capital reported by the 898 locals and the 259 regionals submitting information. Duplications for intercooperative investments were not eliminated from the \$847 million figure or from the following data based on the sample.

A total of \$693 million, or approximately 82 percent of the \$847 million equity capital, was found in regional associations, which comprised 22 percent of all associations studied. Average equity capital in regional associations was slightly less than \$2.7 million, compared with an average equity of less than \$172,000 for the local associations.

The 64 regional farm supply associations had an average equity capital of over \$5 million; whereas, 292 farm supply locals averaged \$158,000.

The average equity capital reported by 801 marketing cooperatives was approximately \$600,000. The 195 regionals in the marketing group averaged a little less than \$2 million, compared with an average of \$179,000 for the 606 marketing locals.

As indicated in table 5, allocated capital credits, without definite maturity

dates, were the most popular form of equity capital employed by the 1,157 farmer cooperatives included in the study, accounting for more than 39 percent of the total. Balance sheets of 936 of the 1,157 associations, or over 80 percent, showed some portion of equity capital in the form of allocated book credits without maturity dates (table 6).

Preferred stock ranked next in importance as a type of equity capital. Only 437 associations in the sample had outstanding preferred stock, but this stock accounted for almost 22 percent of the total equity capital of these cooperatives.

Common stock, used by 827 of the 1,157 associations, accounted for over 19 percent of the total equity capital.

Unallocated reserves appeared on the balance sheets of 70 percent of the associations, but only 10 percent of total equity capital was found in this general reserve account.

Certificates of equity with definite maturity dates, amounting to almost \$70 million, accounted for over 8 percent of total equity capital. Certificates of this type were reported by 47 associations. An additional 93 associations reported certificates of indebtedness, bearing interest and having definite maturity dates, amounting to over \$44 million, as debt capital rather than equity capital.

Table 5. - *Kinds and amounts of equity capital reported by 1,157 marketing and farm supply cooperatives, fiscal year 1954*

Kinds of equity capital	Locals and regionals		Local associations		Regional associations	
	Amount	Percent	Amount	Percent	Amount	Percent
	<i>(Thousands)</i>		<i>(Thousands)</i>		<i>(Thousands)</i>	
Common stock	\$162,680	19.2	\$29,480	19.1	\$133,200	19.2
Preferred stock	185,606	21.9	21,999	14.3	163,607	23.6
Certificates of equity						
with maturity dates	69,808	8.3	3,936	2.5	65,872	9.5
Allocated capital credits						
without maturity dates	331,495	39.1	74,392	48.2	257,103	37.1
Unallocated reserves	85,600	10.1	21,288	13.8	64,312	9.3
Membership certificates	1,826	.2	1,048	.7	778	.1
Miscellaneous equity and						
current net margins	10,241	1.2	2,225	1.4	8,016	1.2
Total equity capital	847,256	100.0	154,368	100.0	692,888	100.0

Table 6. - *Types of equity capital used by 1,157 farmer cooperatives, fiscal year 1954*

Type of association	Number of associations in sample	Number of associations reporting:						
		Common stock	Preferred stock	Certificates of equity with maturity date	Allocated capital credits without maturity date	Unallocated reserves	Membership certificates	Miscellaneous equity and current net margins
Marketing	801	559	262	29	657	558	79	102
Locals	606	458	192	15	490	444	58	78
Regionals	195	101	70	14	167	114	21	24
Farm supply	356	268	175	18	279	246	24	62
Locals	292	221	141	9	223	203	20	55
Regionals	64	47	34	9	56	43	4	7
All associations	1,157	827	437	47	936	804	103	164
Locals	898	679	333	24	713	647	78	133
Regionals	259	148	104	23	223	157	25	31

Certificates of equity, certificates of indebtedness, and certificates of like nature issued by farmer cooperatives are sometimes puzzling financial instruments to classify either as borrowed capital or equity capital particularly where they bear maturity dates. In some respects certificates with such provisions have the characteristics of hybrids--embodying some of the qualities of borrowed capital and some of the marks of attributes of equity capital. The classification and treatment assigned certificates in accounting records is often dependent on whether the issuing cooperative considers it is acquiring borrowed capital or equity capital when it issues certificates. Thus, it is not unusual to find certificates of indebtedness bearing interest and having a definite maturity date classified among the liabilities as borrowed capital on one balance sheet and as net worth or equity capital on another.

Certificates may or may not bear interest and may or may not have a maturity date. Thus, a farmer cooperative issuing to members a certificate of indebtedness bearing 4 percent interest with a 10-year maturity date may con-

sider, with some justification, that it is acquiring equity capital at the time the funds are paid in to the cooperative. But as the years pass and the maturity date approaches, the nature of this form of "equity capital" changes to that of a liability. And in the year of maturity any credit agency looking over the association's balance sheet would insist on classifying such certificates of indebtedness, not only as borrowed capital, but as current liabilities.

This problem was recognized on the questionnaire used as a basis for this study. Associations were requested to include all certificates of indebtedness bearing interest and having definite maturity dates as borrowed capital. Certificates of equity, and other like certificates bearing no interest and having no maturity dates were to be classified as equity capital. Likewise, certificates of equity bearing interest, but having no maturity date, were also to be classified as equity capital. All certificates with definite maturity dates were to be classified as borrowed capital.

But many cooperatives issue revolving fund certificates to members evidencing savings of the cooperatives retained in

the business. They issue some of these revolving fund certificates in annual series bearing interest and maturing after a specified number of years. As these revolving fund certificates mature they too tend to lose their characteristics of equity capital and take on those of borrowed capital.

In this study, if an association reported certificates with maturity dates as borrowed capital on the questionnaires they submitted, the classification was not changed to equity capital unless there was evidence -- either through correspondence, audit statements, or interpretation of the bylaws -- that a change should be made. In making such changes the following factors were taken into consideration: whether substantially all of the certificates in question were in the hands of members of the association, and whether or not the certificates had been acquired through allocation of patronage refunds.

This is apparently an area where confusion exists among cooperatives, and where there is need for clarification as to what constitutes equity capital and what constitutes debt capital.

Membership voting certificates (non-stock) were reported by 103 of the associations, but amounted to less than \$2 million--only two-tenths of 1 percent of total equity capital.

Undistributed current net margins or miscellaneous equity amounting to \$10 million, 1.2 percent of total equity capital, appeared on the balance sheets of the associations.

Table 6 shows the number of associations reporting use of each of the various types of equity capital, with figures for local and regional associations shown separately for the marketing and farm supply groups.

The percentages of equity capital of farmer cooperatives found in the various categories show variation when all marketing associations are compared with all farm supply associations and when all locals are compared with all regionals. For example, figure 3 shows that over 46 percent of the equity capital of all marketing cooperatives is in allocated capital credits without maturity date, compared with less than 30 percent in all

farm supply associations. Over 55 percent of the equity capital in all marketing locals is in the form of allocated book credits without maturity date compared to 32 percent for all farm supply locals.

Common and preferred stock, on the other hand, are more prevalent in farm supply cooperatives than in the marketing group. Farm supply associations have 25 percent of their equity in common stock and almost 28 percent in preferred, compared to less than 15 percent common and 18 percent preferred in the marketing cooperatives.

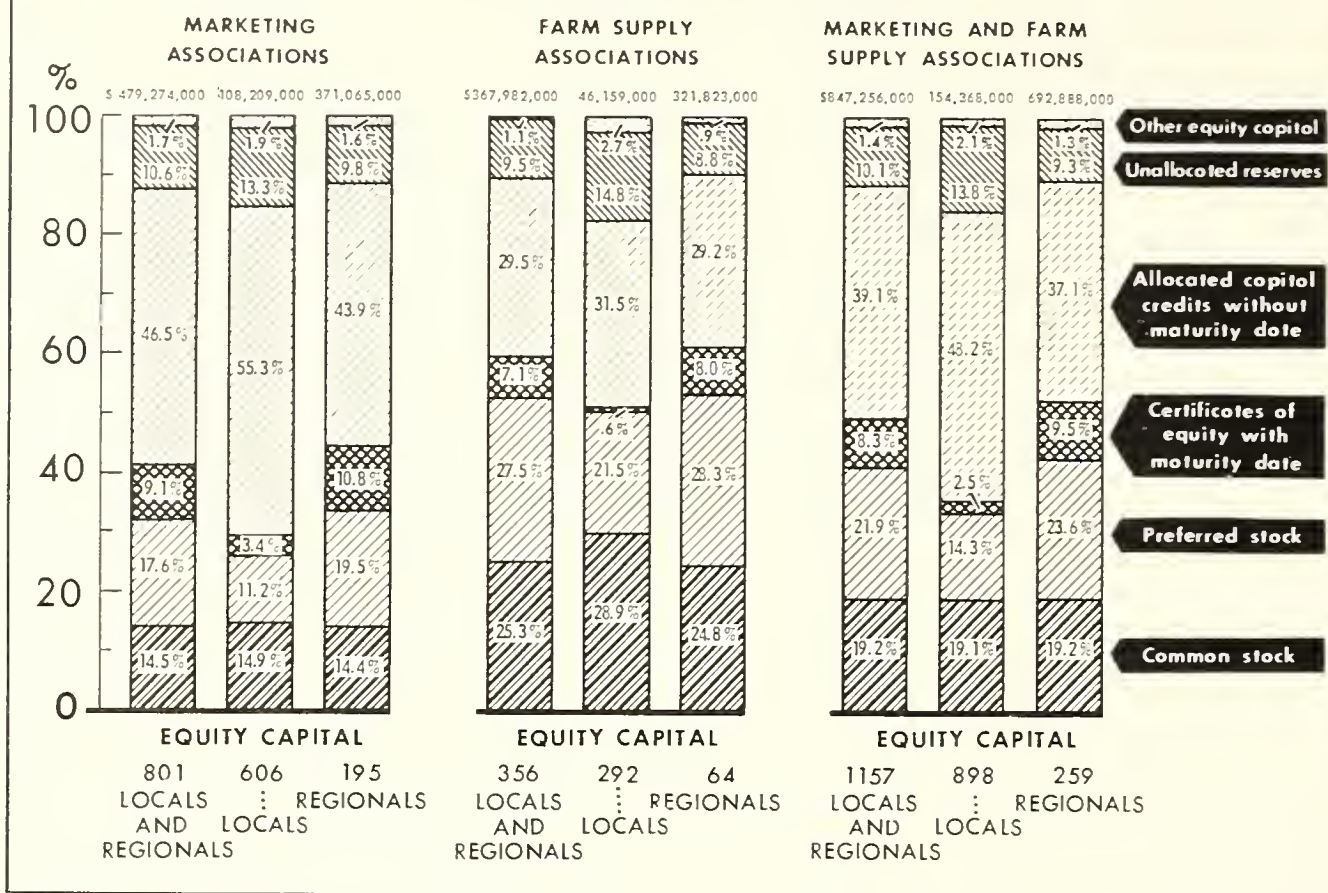
The marketing group comprised 69 percent of associations in the sample. This group accounted for 57 percent of the total equity capital. Farm supply associations--which represented 31 percent of the sample cooperatives--reported 43 percent of the total equity.

Within the marketing group of farmer cooperatives the types and amounts of equity capital varied by principal commodity handled. Table 7 shows 1954 equity capital of the 801 marketing cooperatives used in this study, by commodity groups. Total equity capital is shown for each group of cooperatives, separately for locals and regionals, and the percent of the total represented by various forms of equity capital.

The 66 cotton marketing associations used in the sample had combined equity capital of almost \$36 million in 1954. As shown in table 7, 61 percent of this equity capital was shown on the balance sheets of the cooperatives as allocated book credits without definite maturity dates. Another 22 percent of the total equity was in the form of preferred stock. These two types of equity accounted for over 83 percent of the total equity capital of the cotton cooperatives.

The 215 dairy cooperatives accounted for \$130 million, 27 percent of the \$479 million total equity of the marketing associations reported in table 7. Approximately 51 percent of the total equity of dairy cooperatives appeared on the balance sheets of the associations as allocated book credits without definite due dates. Certificates of equity with definite maturity dates accounted for 18 percent of the total, and preferred stock for another 18.5 percent. These three major

Figure 3 EQUITY CAPITAL OF 1,157 FARMER COOPERATIVES, FISCAL YEAR 1954



types of equity accounted for almost 88 percent of the total equity reported by the dairy associations.

Fruit and vegetable associations totaling 75 were included in the sample, with combined equity capital in 1954 amounting to over \$85 million. Allocated capital credits without definite due dates accounted for almost 60 percent of the total equity of the fruit and vegetable associations. Certificates of equity with definite maturity dates accounted for almost 18 percent. A little less than 13 percent appeared on the balance sheets of the associations as unallocated reserves. Common and preferred stock each represented less than 5 percent of the total.

The largest commodity division included in the marketing group was the 293 grain cooperatives. These associations reported almost \$143 million in equity capital in 1954, which represented 30 percent of the equity capital of the entire marketing group used in the study.

The 24 regional grain associations reported almost 70 percent of their total equity capital in common and preferred stock--35 percent in common and 35 percent in preferred. Allocated capital credits, without due dates, accounted for 22 percent of the grain regionals' total equity capital, and unallocated reserves almost 7 percent.

The 269 local grain associations showed a somewhat different picture. Almost 45 percent of their combined equity capital was represented by allocated book credits without due date. Common stock accounted for 25 percent of the total, and preferred stock only 9 percent. Over 17 percent was reported as unallocated reserves.

The 48 livestock associations used in the study reported \$10 million in combined equity capital in 1954. Of this, 38 percent appeared on the balance sheets of the associations as allocated book credits without due dates. Preferred stock

Table 7. - *Equity capital of 801 marketing cooperatives in sample, by principal commodity handled, at the close of fiscal year 1954*

Principal commodity handled	Number of associations	Total equity capital	Percent of total equity capital						
			Common stock	Preferred stock	Certificates of equity with maturity date	Allocated capital credits without maturity date	Unallocated reserves	Membership certificates (nonstock)	Miscellaneous equity and current net margins
Cotton and products - total	66	\$35,970,189	5.07	22.11	2.78	61.05	2.87	.03	6.09
Locals	47	6,639,260	5.74	26.04	-	56.14	7.93	.17	3.98
Regionals	19	29,330,929	4.93	21.22	3.41	62.15	1.72	-	6.57
Dairy and products - total	215	129,686,095	5.32	18.53	18.40	50.87	5.92	.07	.89
Locals	172	25,870,764	10.42	16.58	11.81	52.66	8.22	.29	.02
Regionals	43	103,815,331	4.05	19.02	20.04	50.42	5.35	.01	1.11
Dry beans and peas - regionals	5	1,856,087	-	-	-	103.02	-(4.06)	1.04	-
Fruits and vegetables - total	75	85,276,270	4.75	4.58	17.70	59.85	12.79	.10	.23
Locals	50	18,474,017	3.04	3.25	.14	79.23	13.75	.02	.57
Regionals	25	66,802,253	5.23	4.95	22.56	54.49	12.52	.12	.13
Grain - total	293	142,810,808	31.41	26.45	.39	29.67	10.31	.23	1.54
Locals	269	47,180,877	24.64	9.28	1.18	44.82	17.41	.38	2.29
Regionals	24	95,629,931	34.76	34.92	-	22.19	6.80	.16	1.17
Livestock products - total	48	10,008,134	10.72	18.25	1.63	37.63	30.52	.40	.85
Locals	20	1,183,433	17.09	24.46	-	28.75	26.99	2.71	-
Regionals	28	8,824,701	9.86	17.42	1.84	38.82	31.00	.09	.97
Misc. marketing - total	7	1,966,815	.56	16.37	-	53.91	29.14	.06	-(.04)
Locals	5	1,018,391	.10	-	-	68.70	31.20	-	-
Regionals	2	948,424	1.06	33.94	-	38.02	26.92	.13	-(.07)
Nuts - total	10	13,473,640	.07	.43	19.15	50.38	29.80	.17	-
Locals	5	3,043,388	-	-	-	99.35	.60	.05	-
Regionals	5	10,430,252	.09	.55	24.74	36.09	38.32	.21	-
Poultry products - total	20	20,701,204	.25	1.96	1.94	86.19	6.48	.86	2.32
Locals	12	2,206,000	2.16	9.35	-	79.48	6.77	1.99	.25
Regionals	8	18,495,204	.02	1.08	2.17	86.99	6.45	.73	2.56
Rice - total	12	12,076,773	40.60	40.09	-	8.93	8.36	1.82	.20
Locals	8	1,846,397	29.50	12.03	-	41.19	5.36	11.92	-
Regionals	4	10,230,376	42.61	45.15	-	3.10	8.90	-	.24
Soybean processing - regionals	6	3,623,454	13.84	16.19	-	64.20	5.77	-	-
Sugar and sugar products - regionals	6	5,416,543	2.83	37.46	-	50.02	.76	-	8.93
Service - total	19	767,640	12.25	47.36	-	22.04	16.99	1.35	.01
Locals	18	746,676	12.59	48.69	-	20.30	17.02	1.39	.01
Regionals	1	20,964	-	-	-	84.12	15.88	-	-
Tobacco - regionals	11	13,903,308	35.91	3.69	-	16.05	42.55	1.76	.04
Wool and mohair - regionals	8	1,737,370	-	-	1.38	93.84	3.65	1.13	-
Total	801	479,274,330	14.49	17.65	9.11	46.50	10.56	.27	1.42
Locals	606	108,209,203	14.93	11.16	3.36	55.32	13.35	.53	1.35
Regionals	195	371,065,127	14.36	19.55	10.79	43.92	9.75	.19	1.44

accounted for 18 percent of the total equity and common stock for 11 percent. Over 30 percent of the total was reported as unallocated reserves.

Included in the study were 20 poultry and egg cooperatives. These associations reported equity capital of approximately \$21 million in 1954. Over 86 percent of

this equity capital was shown on the balance sheets of the associations as allocated capital credits without definite due dates.

Table 7 lists equity capital statistics for other commodity breakdowns, and totals for the 801 marketing cooperatives included in the table.

Methods of Acquiring Equity Capital

Members of cooperatives acquire their shares of equity capital by one of three methods -- purchase, authorized deductions, or refunds retained. Frequently two of these methods, and occasionally all three, are used by the same association.

Authorized capital deductions are deductions made by associations from sales proceeds in compliance with a bylaw provision or membership agreement. They usually take some such form as a specified deduction for each physical unit handled (bushel, hundredweight, dozen, and so on), or a percentage of sales returns.

Refunds retained are savings or margins realized in operations and held by the association as an addition to capital. Such refunds may be paid out to patrons at some future date. These deferred payments are often returned to patrons on a revolving fund basis which is discussed in a later section of this report.

Estimates of sources of equity capital of all farmer cooperatives have not been made. Reports from 1,157 associations have been tabulated in detail, however, in this section of this report.

As shown in figure 4, over 60 percent of the \$847 million in equity capital of the 1,157 associations in this study was acquired by refunds retained for deferred payment. Over 66 percent of the equity capital of local associations, both marketing and farm supply, was acquired by this method. While retention of patronage refunds is not used quite as extensively in regional associations as in locals, members of regionals acquire almost 60 percent of their equity capital by leaving patronage refunds with the cooperatives. The regional farm supply associations acquired almost 63 percent of their

equity by retaining refunds, while the marketing regionals acquired less than 57 percent in this manner.

Cooperative members purchased outright over 15 percent of their total equity capital. In local associations only 10.6 percent was purchased compared with 16.3 percent in regionals.

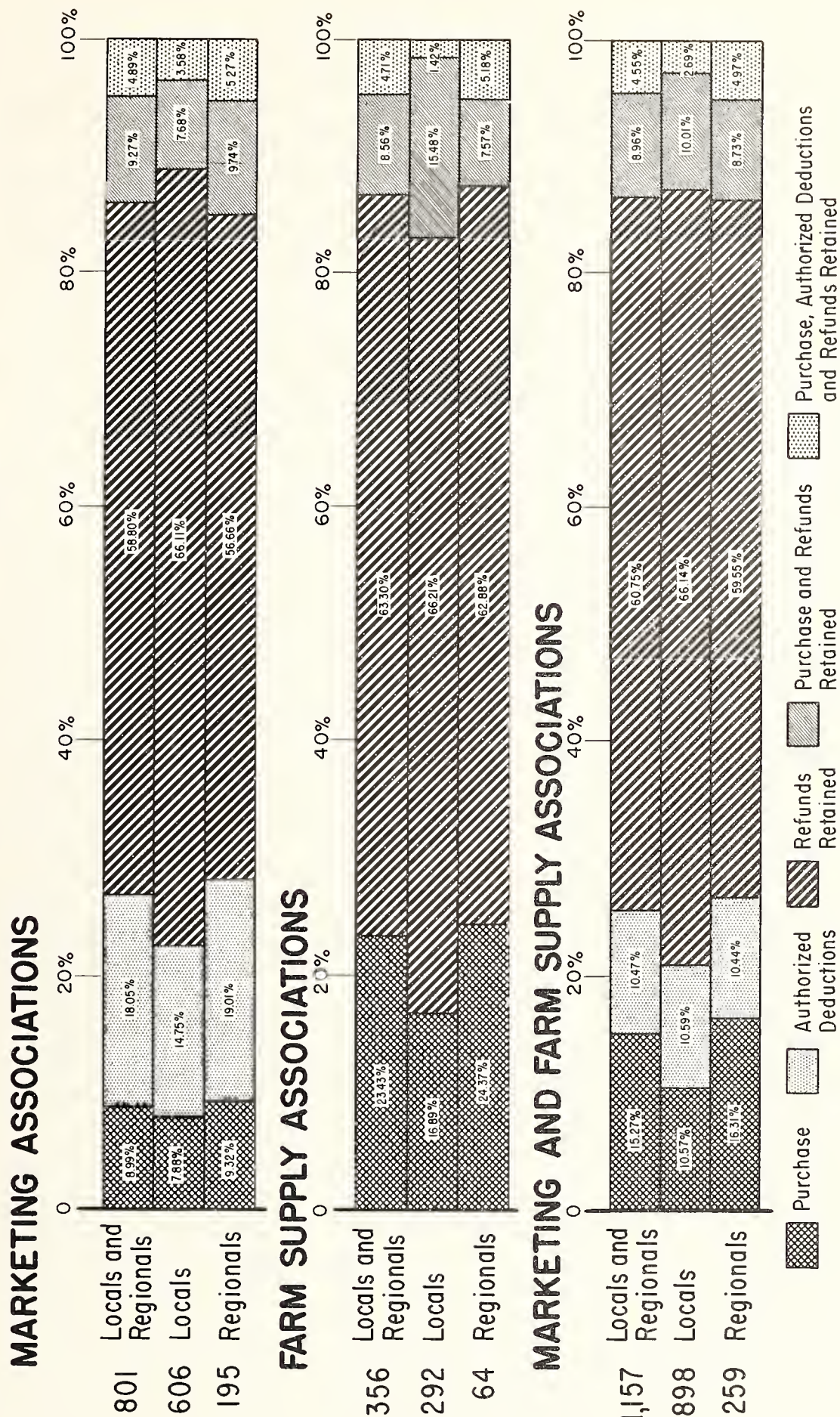
When the percentage of total equity capital purchased outright by members of marketing associations was compared with the percentage purchased outright by members of the farm supply group, it was evident that this method of financing was much more prevalent with farm supply associations than with marketing associations. Members of marketing associations acquired less than 9 percent of their total equity by purchase of securities. The comparable percentage for the group of farm supply associations was over 23 percent.

Local associations as a group acquired a larger percentage of their total equity capital by retaining refunds than did regional associations as a group. Regional associations, on the other hand, sold more of their equity capital outright to members and patrons than did locals. A little better than 10 percent of total equity capital was acquired by authorized deductions in both the local and regional groups.

Some associations required members to buy one or more shares of equity capital when they joined the association and additional shares were acquired over the years by leaving patronage refunds with the association. Approximately 9 percent of total equity capital was acquired by a combination of purchase and retention of refunds.

Of the total equity capital of all the associations 10 percent was acquired by

Figure 4
**METHODS OF ACQUIRING EQUITY CAPITAL OF MARKETING AND
 FARM SUPPLY COOPERATIVES, FISCAL YEAR 1954**



capital deductions made by the associations from sales proceeds. Marketing associations acquired 18 percent of equity capital by authorized deductions. This method of acquiring capital was insignificant with the farm supply associations.

Members acquired the other 5 percent of total equity capital by various combinations of these methods--purchase, authorized deductions, and refunds retained.

The importance of each method of acquiring equity capital varied significantly by type of equity. Tables 8 through 11 show how patrons acquired common stock, preferred stock, allocated capital credits (including certificates of equity with a definite due date and book credits without a due date), and membership voting certificates. These four types of equity, plus unallocated reserves, accounted for the total equity capital reported by the 1,157 cooperatives used in this study. A separate tabulation is not shown for unallocated reserves, since they were acquired almost entirely by refunds retained.

Common stock

As shown in table 8, the 1,157 cooperatives had about \$163 million -- 19 percent of their total equity capital -- in the form of common stock in 1954. Almost one-half of this stock was acquired by patrons through refunds retained by the cooperatives. Another 19 percent was acquired by a combination of purchase and refunds left with the associations. Of the total common stock, 26 percent was purchased outright. Only a little better than 2 percent was acquired by members through the medium of authorized deductions. The other 3 percent of the common stock was acquired by a combination of two or all three of these methods.

Members or patrons of regional associations purchased more common stock outright than did members of locals. Local members purchased outright 15 percent of their common stock compared to 28 percent by the regional members. However, this difference was partially accounted for because patrons

of locals acquired over 35 percent of their common stock by a combination of purchase and refunds retained -- compared with 15 percent acquired this way by patrons of regional associations. In addition, the regional associations sold 51 percent of their total common stock by retaining refunds from members as payment compared to 45 percent sold by locals in this manner.

Members or patrons of marketing associations purchased outright 18 percent of their common stock. They acquired another 22 percent by a combination of purchase and refunds retained and 48 percent entirely by refunds retained.

Members or patrons of the farm supply group, on the other hand, purchased outright 32 percent of their common stock, acquired 16 percent by a combination of purchase and refunds retained, and 51 percent entirely by refunds retained.

Marketing associations sold 5 percent of their common stock by making authorized deductions from sales proceeds. Another 5 percent was sold by a combination of purchase and authorized deductions. This method of selling common stock is insignificant with the farm supply associations. The small amount shown in table 8 as authorized deductions was probably reported by a few associations which market some products for members but are engaged primarily in obtaining farm supplies for the members.

Preferred stock

The 1,157 cooperatives studied had approximately \$186 million, or 22 percent of their total equity capital, in the form of preferred stock in 1954 (table 9). As would be expected due to the nature of this stock, a much larger percentage was acquired by purchase than was the case with common stock. Common stock is usually the voting stock and the bylaws require that all members own one or more shares.

Over 39 percent of preferred stock was purchased outright by patrons and another 24 percent was obtained by a combination of purchase and refunds retained. Of the total, 31 percent was obtained entirely by refunds retained.

Table 8. - *Methods of acquiring common stock of marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Number of associations	Total common stock	Common stock as percent of total equity capital	Percentage of total common stock acquired by:					
				Purchase	Authorized deductions	Refunds retained	Purchase and authorized deductions	Purchase and refunds retained	Authorized deductions and refunds retained
Marketing	801	\$69,429	14.49	18.32	5.38	48.26	4.72	21.99	.05
Locals	606	16,152	14.93	23.06	1.79	35.37	1.20	35.80	.14
Regionals	195	53,277	14.36	16.89	6.47	52.17	5.78	17.81	.02
Farm supply	356	93,251	25.34	31.96	.30	51.10	.55	16.03	.05
Locals	292	13,328	28.87	6.30	.62	56.98	.62	35.07	.32
Regionals	64	79,923	24.83	36.24	.25	50.12	.54	12.85	-
All associations	1,157	162,680	19.20	26.14	2.47	49.89	2.33	18.57	.05
Locals	898	29,480	19.10	15.48	1.26	45.14	.94	35.47	.22
Regionals	259	133,200	19.22	28.50	2.74	50.94	2.64	14.83	.01

(Thousands)

Table 9. - *Methods of acquiring preferred stock of marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Number of associations	Total preferred stock	Preferred stock as percent of total equity capital	Percentage of total preferred stock acquired by:						
				Purchase	Authorized deductions	Refunds retained	Purchase and authorized deductions	Purchase and refunds retained	Authorized deductions and refunds retained	Purchase, authorized deductions, and refunds retained
(Thousands)										
Marketing	801	\$84,607	17.65	26.13	1.83	34.35	2.35	32.39	.57	2.38
Locals	606	12,077	11.16	27.03	4.98	42.43	1.94	19.91	-	3.71
Regionals	195	72,530	19.55	25.98	1.31	33.01	2.42	34.46	.67	2.15
Farm supply	356	100,999	27.45	49.98	1.53	28.80	1.00	16.27	2.39	.03
Locals	292	9,922	21.50	66.89	-	8.20	1.03	23.60	-	.28
Regionals	64	91,077	28.30	48.14	1.70	31.04	1.00	15.47	2.65	-
All associations	1,157	185,606	21.91	39.11	1.67	31.33	1.62	23.61	1.56	1.10
Locals	898	21,999	14.25	45.01	2.73	26.99	1.53	21.58	-	2.16
Regionals	259	163,607	23.61	38.32	1.53	31.91	1.63	23.89	1.77	.95

(Thousands)

The marketing associations as a group depended more on retained refunds as payment for preferred stock issued than did the farm supply associations. Marketing cooperatives sold only 26 percent of their stock to patrons outright, compared to 50 percent sold outright by farm supply associations. However, patrons of marketing associations acquired 32 percent of preferred stock by a combination of purchase and refunds retained, compared to only 16 percent in the farm supply associations. Members of farm supply associations as a group acquired 29 percent of the preferred stock entirely by refunds retained, compared with 34 percent when marketing associations were taken as a group.

Patrons of local associations purchased more preferred stock outright than did patrons of the larger regional associations. The local farm supply cooperatives sold almost 67 percent of their preferred stock outright. As indicated in table 9, the regionals depended a little more on retained refunds for payment of the stock than did the locals -- 32 percent as compared to 27 percent.

Certificates of equity and allocated book credits

The 1,157 cooperatives included in the study had over \$401 million, over 47 percent of their total equity capital, in the form of certificates of equity and allocated book credits. The cooperatives reported no definite due dates on almost 83 percent of this allocated capital.

While some cooperatives issue certificates of equity covering a part or all of the capital credits allocated to patrons, other associations follow the practice of crediting capital to individual patrons, notifying them of their respective shares, and not issuing any formal certificates of equity covering their book credits. In many cases the information furnished on the questionnaires used in this survey did not reveal whether certificates were issued or the credits were recorded to members on the books only. This

explains why equity capital in the form of certificates of equity and allocated book credits could not be tabulated separately.

As shown in table 10, patrons acquired 70 percent of the total certificates of equity and allocated book credits through refunds retained by the cooperatives for deferred payment. They acquired an additional 20 percent by authorized deductions from patrons sales proceeds. The combination of these two methods accounted for another 5.5 percent of the total.

Only 3.3 percent of the total certificates of equity and allocated book credits was purchased outright by patrons. Such credits were represented by certificates of equity with definite due dates, and were more popular with the regional associations than with locals.

Over 87 percent of the total "allocated capital credits" of farm supply associations was acquired entirely by refunds retained. Another 8 percent was acquired by a combination of refunds retained and authorized deductions. Patrons purchased 4 percent outright.

Authorized deductions accounted for over 30 percent of total "allocated capital credits" of marketing associations. Patronage refunds left with marketing associations accounted for almost 61 percent, and a combination of these two methods accounted for another 4 percent. Less than 3 percent was purchased outright.

Membership voting certificates

Membership voting certificates (non-stock) amounted to less than \$2 million, two-tenths of 1 percent of total equity capital of the sample of 1,157 cooperatives.

As shown in table 11, 54 percent of these certificates were purchased outright by members, almost 18 percent were acquired by refunds retained, 11 percent by authorized deductions, and the other 17 percent by various combinations of these methods.

Table 10. - *Methods of acquiring certificates of equity and allocated book credits of marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Number of associations	Total certificates of equity and allocated book credits	Allocated capital credits as percent of total equity capital	Percentage of total certificates of equity and allocated credits acquired by:						
				Purchase	Authorized deductions	Refunds retained	Purchase and authorized deductions	Purchase and refunds retained	Authorized deductions and refunds retained	Purchase, authorized deductions, and refunds retained
Marketing	801	\$266,534	55.61	2.86	30.48	60.58	.68	.65	4.02	.73
Locals	606	63,503	58.69	1.83	23.74	70.30	1.18	.14	2.67	.14
Regionals	195	203,031	54.71	3.19	32.58	57.54	.52	.81	4.44	.92
Farm supply	356	134,770	36.62	4.15	.08	87.39	-	.08	8.29	.01
Locals	292	14,826	32.12	.45	.75	98.04	-	.71	-	.05
Regionals	64	119,944	37.27	4.61	-	86.07	-	-	9.32	-
All associations	1,157	401,304	47.36	3.30	20.27	69.58	.45	.46	5.45	.49
Locals	898	78,329	50.74	1.57	19.38	75.55	.96	.25	2.17	.12
Regionals	259	322,975	46.62	3.72	20.48	68.13	.33	.51	6.25	.58

(Thousands).

Table 11. - *Methods of acquiring membership voting certificates of marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Number of associations	Total membership voting certificates	Membership voting certificates as percent of total equity capital	Percentage of total membership voting certificates acquired by:						
				Purchase	Authorized deductions	Refunds retained	Purchase and authorized deductions	Purchase and refunds retained	Authorized deductions and refunds retained	Purchase, authorized deductions, and refunds retained
(Thousands)										
Marketing	801	\$1,267	.26	51.30	.51	25.04	19.97	3.02	-	.15
Locals	606	576	.53	64.60	.41	27.88	1.41	5.38	-	.32
Regionals	195	691	.19	40.23	.60	22.68	35.44	1.05	-	-
Farm supply	356	559	.15	60.78	33.86	.69	-	4.67	-	-
Locals	292	472	1.02	53.55	40.11	.81	-	5.53	-	-
Regionals	64	87	.03	100.00	-	-	-	-	-	-
All associations	1,157	1,826	.22	54.21	10.72	17.59	13.86	3.52	-	.10
Locals	898	1,048	.68	59.63	18.29	15.69	.77	5.45	-	.17
Regionals	259	778	.11	46.91	.53	20.14	31.48	.94	-	-

Dividends and Interest on Equity Capital

The question of whether members should receive dividends or interest on equity capital is one on which cooperatives are not in agreement. While some associations make no return on equity capital whatsoever, others go all the way and provide for a modest rate of return to every member having equity capital invested in his cooperative. However, many cooperatives take a middle-of-the-road approach and pay interest on some types of equity capital and not on others.

Analysis of interest and dividend payments

As shown in table 12, 445 associations, over 38 percent of the 1,157 marketing and farm supply cooperatives included in this study, indicated that they pay no interest or dividends on any equity capital

by paying interest on some stock, certificates of equity or allocated book credits, but not on all types of equity.

A study of tables 13, 14, and 15 indicates that more cooperatives tend to make returns on all preferred stock than on all common stock or certificates of equity and book credits, and that very few associations make returns on all equity certificates and book credits. This was, of course, well known, but it is of interest to note just how many associations are paying interest on each type of equity capital.

Table 13 shows that over 52 percent of the 827 associations with outstanding common stock in 1954 reported that no dividend was provided for holders of common stock. Of the 827 associations, 45 percent were paying a modest dividend on all common stock. Another 3 percent, or 26 associations, reported that they had

Table 12. - Number and percent of farmer cooperatives paying interest and dividends on equity capital, fiscal year 1954

Type of association	Number of associations	Associations paying no dividends or interest on any equity capital		Associations paying interest or dividends on all equity capital except memberships and unallocated reserves		Associations paying dividends or interest on some types of stock or allocated equity and not on others	
		Number	Percent	Number	Percent	Number	Percent
Marketing	801	338	42.2	91	11.4	372	46.4
Locals	606	238	39.3	75	12.4	293	48.3
Regionals	195	100	51.3	16	8.2	79	40.5
Farm supply	356	107	30.1	36	10.1	213	59.8
Locals	292	89	30.5	29	9.9	174	59.6
Regionals	64	18	28.2	7	10.9	39	60.9
All associations	1,157	445	38.5	127	11.0	585	50.5
Locals	898	327	36.4	104	11.6	467	52.0
Regionals	259	118	45.5	23	8.9	118	45.6

whatsoever. A total of 127 associations, or 11 percent, reported that they paid some interest on all equity capital, except membership certificates (non-stock) and unallocated reserves. The other 585 associations which account for almost 51 percent of the entire sample, followed the middle-of-the-road approach

both interest-bearing and noninterest-bearing common stock. The noninterest-bearing common stock of these 26 associations probably represented a separate class of stock issued to members only upon joining the association, more or less as membership qualifying stock.

Table 13. - Number and percent of farmer cooperatives paying dividends on common stock, fiscal year 1954

Type of association	Number of associations	Associations with common stock		Associations paying no dividends on any common stock		Associations paying dividends on all common stock		Associations paying dividends on some types of stock and not others	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
Marketing	801	559	69.8	285	51.0	248	44.4	26	4.6
Locals	606	458	75.6	218	47.6	214	46.7	26	5.7
Regionals	195	101	51.8	67	66.3	34	33.7	0	-
Farm supply	356	268	75.3	146	54.5	122	45.5	0	-
Locals	292	221	75.7	120	54.3	101	45.7	0	-
Regionals	64	47	73.4	26	55.3	21	44.7	0	-
All associations	1,157	827	71.5	431	52.2	370	44.7	26	3.1
Locals	898	679	75.6	338	49.8	315	46.4	26	3.8
Regionals	259	148	57.1	93	62.8	55	37.2	0	-

Table 14 covers the 437 associations which reported outstanding preferred stock in 1954. Almost 76 percent of the associations were paying dividends on all preferred stock; 20 percent reported no

book credits, but many of the associations allocated them to members on their books and did not issue formal certificates. Almost 87 percent of the 936 associations were paying no interest on the certifi-

Table 14. - Number and percent of farmer cooperatives paying dividends on preferred stock fiscal year 1954

Type of association	Number of associations	Associations with preferred stock		Associations paying no dividends on any preferred stock		Associations paying dividends on all preferred stock		Associations paying dividends on some types of stock and not on others	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
Marketing	801	262	32.7	61	23.3	190	72.5	11	4.2
Locals	606	192	31.7	47	24.5	136	70.8	9	4.7
Regionals	195	70	35.9	14	20.0	54	77.1	2	2.9
Farm supply	356	175	49.2	27	15.4	141	80.6	7	4.0
Locals	292	141	48.3	25	17.7	112	79.5	4	2.8
Regionals	64	34	53.1	2	5.9	29	85.3	3	8.8
All associations	1,157	437	37.8	88	20.1	331	75.8	18	4.1
Locals	898	333	37.1	72	21.6	248	74.5	13	3.9
Regionals	259	104	40.2	16	15.4	83	79.8	5	4.8

provision for dividends on any preferred stock; and the other 4 percent of the associations had more than one class of preferred stock, some interest-bearing and some noninterest-bearing.

As shown in table 15, 936 of the 1,157 associations reported capital credits allocated to members on their 1954 balance sheets. Some associations issued certificates to members covering these

certificates of equity or allocated capital credits. Only 4 percent of the associations were paying interest on all of their equity certificates and allocated capital credits, and the other 9 percent were paying interest on some allocations and no interest on others. The interest-bearing equity reported by these associations was probably represented by formal certificates of equity.

Table 15. - Number and percent of farmer cooperatives paying interest on certificates of equity or allocated book credits, fiscal year 1954

Type of association	Number of associations	Associations with allocated capital credits		Associations paying no interest on any allocated capital credits		Associations paying interest on all allocated capital credits		Associations paying interest on some and not on others	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
Marketing	801	657	82.0	566	86.1	26	4.0	65	9.9
Locals	606	490	80.9	432	88.1	20	4.1	38	7.8
Regionals	195	167	85.6	134	80.2	6	3.6	27	16.2
Farm supply	356	279	78.4	246	88.1	13	4.7	20	7.2
Locals	292	223	76.4	203	91.1	9	4.0	11	4.9
Regionals	64	56	87.5	43	76.8	4	7.1	9	16.1
All associations	1,157	936	80.9	812	86.7	39	4.2	85	9.1
Locals	898	713	79.4	635	89.0	29	4.1	49	6.9
Regionals	259	223	86.1	177	79.4	10	4.5	36	16.1

Analysis of rate of return on equity capital

The 1,157 marketing and farm supply cooperatives included in this study reported equity capital of all types of \$847 million at the close of their 1954 fiscal year. As shown in table 16, \$550 million of this capital, or almost 65 percent, was noninterest bearing. Less than 2 percent of the equity capital bore interest of 1 percent to less than 3 percent annually. Another 4 percent bore interest at 3 percent to less than 4 percent annually.

Where interest was paid, the most prevalent rate was approximately 4 per-

cent. Over 17 percent of the total equity capital bore interest of at least 4 percent but less than 5 percent. Another 10 percent of the total equity capital bore interest of at least 5 percent but less than 7 percent. Only 1 percent of the total equity capital bore interest at 7 percent or over annually.

More of the farm supply cooperatives paid interest and dividends on equity capital, and at slightly higher rates, than the marketing associations did. Figure 5 shows the interest and dividend rates on equity capital of these two types of cooperatives. The rates reported by locals and regionals in each group are also shown separately.

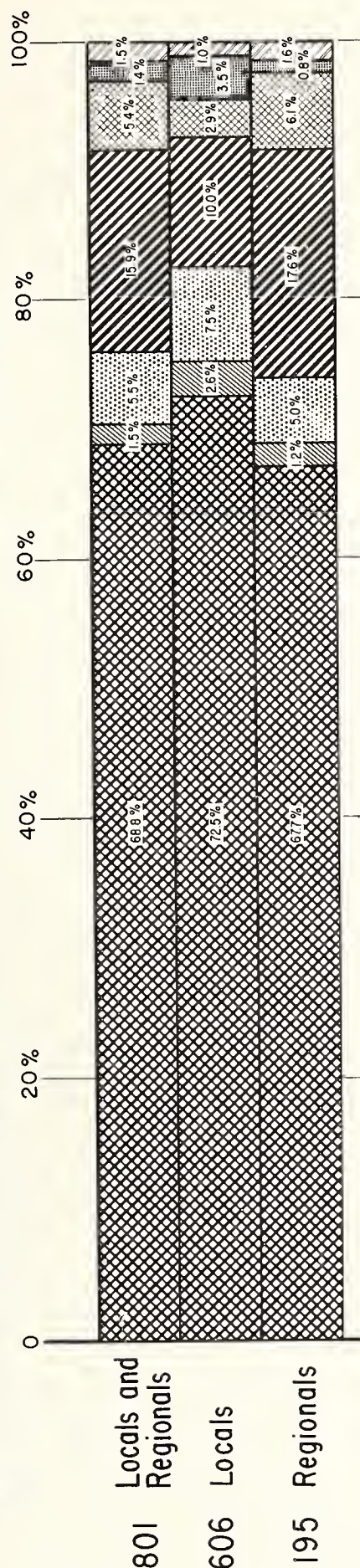
Table 16. - Interest and dividend rates on equity capital of 1,157 farmer cooperatives, fiscal year 1954

Rate of return	Equity capital	
	Amount	Percent
(Thousands)		
No return	\$550,000	64.9
1 percent to less than 3 percent	16,000	1.9
3 percent to less than 4 percent	36,000	4.3
4 percent to less than 5 percent	148,000	17.5
5 percent to less than 6 percent	48,000	5.7
6 percent to less than 7 percent	40,000	4.7
7 percent and over	9,000	1.0
Total	847,000	100.0

Figure 5

INTEREST AND DIVIDEND RATES ON EQUITY CAPITAL OF 1,157 MARKETING AND FARM SUPPLY COOPERATIVES, FISCAL YEAR 1954

MARKETING ASSOCIATIONS



FARM SUPPLY ASSOCIATIONS

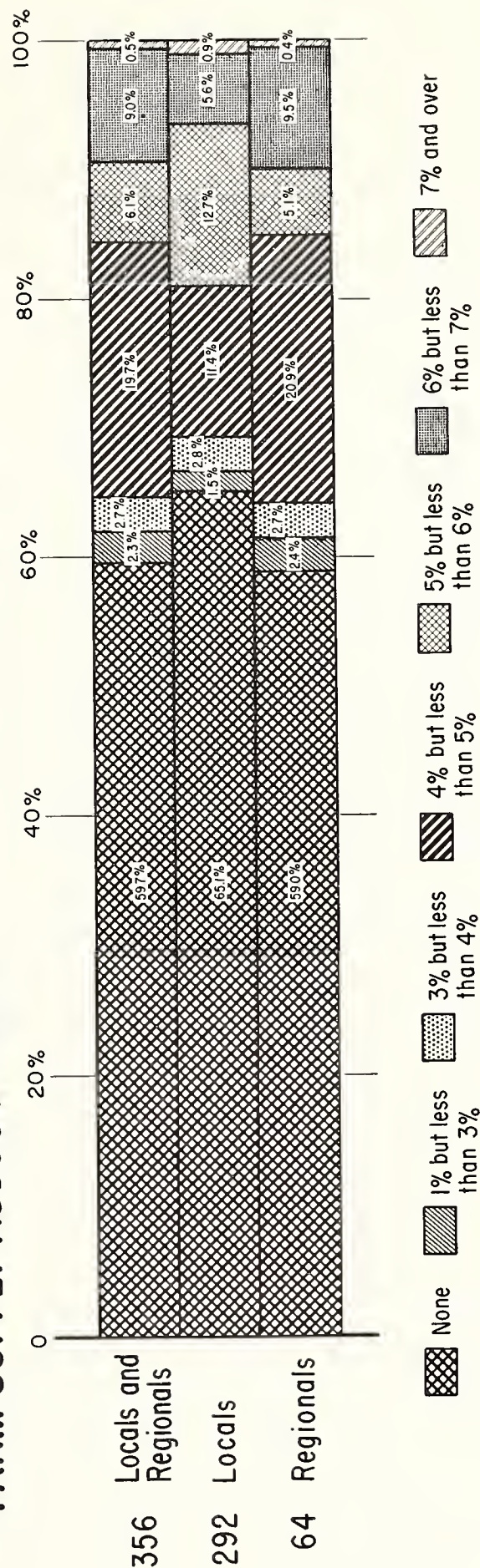


Table 16 and figure 5 on interest and dividend rates are based on all equity capital reported by 1,157 farmer cooperatives and include unallocated reserves, membership certificates, and current net margins on which no interest or dividends would normally be paid.

The cooperatives included in this study had \$163 million, 19 percent of their total equity capital, in the form of common stock in 1954 (table 18). As indicated in table 18, dividends are not paid on over half of this stock. About 30 percent of the stock pays dividends of 1 percent to less than 6 percent annually; 16

Table 17. - *Interest and dividend rates on allocated equity capital of 1,157 marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Equity capital represented by stock, certificates of equity, or allocated book credits	Percentage of total allocated equity capital with						
		No interest	1 to less than 3 percent	3 to less than 4 percent	4 to less than 5 percent	5 to less than 6 percent	6 to less than 7 percent	7 percent and over
(Thousands)								
Marketing	\$420,571	64.44	1.73	6.33	18.07	6.16	1.58	1.69
Locals	91,732	67.62	3.16	8.86	11.54	3.45	4.15	1.22
Regionals	328,839	63.55	1.33	5.63	19.89	6.92	.86	1.82
Farm supply	329,019	54.96	2.58	3.02	22.02	6.82	10.04	.56
Locals	38,075	57.74	1.86	3.34	13.75	15.42	6.77	1.12
Regionals	290,944	54.60	2.67	2.97	23.11	5.70	10.46	.49
All associations	749,590	60.28	2.10	4.88	19.81	6.45	5.29	1.19
Locals	129,807	64.73	2.78	7.24	12.18	6.96	4.92	1.19
Regionals	619,783	59.35	1.96	4.38	21.40	6.35	5.37	1.19

Table 17 shows interest and dividend rates on approximately \$750 million of equity capital that was allocated. Allocated equity, represented by common and preferred stock, certificates of equity, or allocated book credits, accounted for over 88 percent of the total equity capital invested in the 1,157 associations.

Interest and dividend rates varied for different types of equity capital. Tables 18, 19, and 20 show dividend rates reported for common and preferred stock, and interest rates for certificates of equity and allocated book credits. Membership certificates purchased for membership qualifying purposes accounted for a very small part of equity capital, and ordinarily bore no interest.

Dividend rates on common stock

Common stock is used by cooperatives to a large extent as voting stock, in which case each member is generally required by the bylaws to own one or more shares.

percent pays up to 6 percent but less than 7; and only 2 percent pays 7 percent and over.

Of the 1,157 cooperatives 71 percent, or 827, reported some equity capital in the form of common stock in 1954. Of the 827 cooperatives with outstanding common stock in 1954, a total of 339, or 41 percent, paid dividends on common stock that year amounting to \$3.7 million. However, less than 3 percent of the total net savings of the 1,157 cooperatives included in this study was used to pay dividends on common stock in 1954.

Dividend rates on preferred stock

Preferred stock of cooperatives is usually nonvoting stock. Purchase of this stock is generally not required for membership in cooperatives. Cooperatives issue preferred stock primarily to increase operating capital. However, many cooperatives issue preferred stock to patrons as patronage refunds rather than

Table 18. - Dividend rates on common stock of 827 marketing and farm supply cooperatives, 1954

Type of association	Number of associations reporting common stock	Total common stock	Percentage of total common stock with						
			No dividends	1 to less than 3 percent	3 to less than 4 percent	4 to less than 5 percent	5 to less than 6 percent	6 to less than 7 percent	7 percent and over
(Thousands)									
Marketing	559	\$69,430	50.01	4.96	7.45	20.45	9.21	2.79	5.13
Locals	458	16,153	24.00	5.55	22.71	26.69	8.33	10.09	2.63
Regionals	101	53,277	57.90	4.78	2.83	18.55	9.48	.58	5.88
Farm supply	268	93,251	51.74	.65	1.06	6.97	12.92	26.57	.09
Locals	221	13,327	60.75	3.77	7.44	15.15	6.65	5.75	.49
Regionals	47	79,924	50.24	.13	-	5.61	13.96	30.04	.02
All associations	827	162,681	51.00	2.49	3.79	12.72	11.34	16.42	2.24
Locals	679	29,480	40.61	4.75	15.81	21.47	7.57	8.13	1.66
Regionals	148	133,201	53.30	1.99	1.13	10.79	12.17	18.26	2.36

paying cash or allocating the patronage refunds as book credits.

About \$186 million, 22 percent of total equity capital of the cooperatives included in this study, was in the form of preferred stock in 1954. Dividends are not paid on 31 percent of this preferred stock. Fifteen percent of the preferred stock pays dividends of 1 percent to less than 4 percent annually. As shown in table 19, dividend rates of 4 percent to less than 5 percent were most prevalent for cooperatives paying dividends on preferred stock, 38 percent of the total

falling in this category. Some 16 percent of total preferred stock carried dividend rates of 5 percent or higher. However, less than 3 percent of all preferred stock carried dividends of 7 percent and over.

Of the 1,157 cooperatives included in this study 437, or 38 percent, reported some preferred stock outstanding in 1954. Two-thirds of the cooperatives with outstanding preferred stock in 1954 reported that they paid cash dividends on preferred stock that year. The 1954 dividends paid on preferred stock amounted to almost \$4 million. Three percent of

Table 19. - Dividend rates on preferred stock of 437 marketing and farm supply cooperatives, fiscal year 1954

Type of association	Number of associations reporting preferred stock	Total preferred stock	Percentage of total preferred stock with						
			No dividends	1 to less than 3 percent	3 to less than 4 percent	4 to less than 5 percent	5 to less than 6 percent	6 to less than 7 percent	7 percent and over
(Thousands)									
Marketing	262	\$84,607	33.77	1.98	14.55	32.45	7.82	5.26	4.17
Locals	192	12,076	16.83	7.53	17.63	27.89	7.46	17.00	5.66
Regionals	70	72,531	36.59	1.05	14.04	33.22	7.88	3.30	3.92
Farm supply	175	100,999	28.13	6.23	8.27	42.77	6.18	6.69	1.73
Locals	141	9,923	5.51	1.22	1.82	31.58	38.90	17.35	3.62
Regionals	34	91,076	30.60	6.77	8.97	43.99	2.62	5.52	1.53
All associations	437	185,606	30.70	4.29	11.13	38.07	6.93	6.04	2.84
Locals	333	21,999	11.72	4.68	10.50	29.56	21.64	17.16	4.74
Regionals	104	163,607	33.25	4.24	11.22	39.21	4.95	4.54	2.59

the total net savings of the 1,157 cooperatives surveyed was used to pay preferred stock dividends in 1954.

Interest rates on certificates of equity and book credits

Certificates of equity and book credits allocated to members amounted to over \$401 million and accounted for over 47 percent of total 1954 equity capital reported by the 1,157 cooperatives used in this study.

As shown in table 20, almost 78 per-

cent of this equity capital was noninterest bearing. The 22 percent that bore interest was represented largely by certificates of equity. Almost \$70 million, over 8 percent of the total, was represented by certificates of equity with definite maturity dates.

Only six-tenths of 1 percent of total 1954 net savings was used to pay interest on certificates of equity. Most of these interest-bearing certificates carried interest of approximately 4 percent annually. Of the 1,157 cooperatives, 33 reported payment of interest on certificates of equity in 1954.

Table 20. - *Interest rates on certificates of equity and allocated book credits of 936 marketing and farm supply cooperatives, fiscal year 1954*

Type of association	Number of associations reporting certificates of equity or allocated book credits	Total certificates of equity and allocated book credits	Percentage of total certificates of equity and allocated book credits with						
			No interest	1 to less than 3 percent	3 to less than 4 percent	4 to less than 5 percent	5 to less than 6 percent	6 to less than 7 percent	7 percent and over
(Thousands)									
Marketing	657	\$266,534	77.93	.81	3.42	12.88	4.85	.10	.01
Locals	490	63,503	88.38	1.72	3.66	4.57	1.45	.19	.03
Regionals	167	203,031	74.67	.53	3.35	15.48	5.91	.06	-
Farm supply	279	134,769	77.30	1.18	.44	16.89	3.08	1.11	-
Locals	223	14,825	89.99	.57	.69	.55	7.59	.61	-
Regionals	56	119,944	75.73	1.26	.40	18.91	2.53	1.17	-
All associations	936	401,303	77.72	.94	2.42	14.23	4.25	.44	(1)
Locals	713	78,328	88.69	1.50	3.10	3.81	2.61	.27	.02
Regionals	223	322,975	75.06	.80	2.26	16.75	4.65	.48	-

¹Less than .005 percent.

Sources and Amounts of Borrowed Capital

Lack of capital and too small a capital structure are major problems of many farmer cooperatives today. Are cooperatives relying too heavily on internal or equity financing to meet their financial needs at the expense of growth and expansion which would be possible with borrowed capital?

High prices tie up large amounts of capital in accounts receivable where cooperatives are extending credit. The necessity of carrying many more items in inventory and a much wider range of

goods than formerly puts pressure on the capital structure. Likewise, the high cost of machinery and construction places very definite limitations on the expansion possibilities of cooperatives operating on a pay as you go basis and relying entirely on financing from within. These are some of the factors having a bearing on the amounts of borrowed capital used by farmer cooperatives.

Total outstanding borrowed capital of all marketing and farm supply cooperatives (except bargaining associations) at the

close of fiscal year 1954 is estimated at \$900 million. Duplication caused by intercooperative borrowing was eliminated in this national estimate, which represents net borrowed capital of all local and regional associations listed with Farmer Cooperative Service in 1954.

Over \$266 million of borrowed capital, however, was accounted for by 29 regional tobacco cooperatives as Commodity Credit Corporation commodity loans. Since the large loans the tobacco cooperatives have from C. C. C. tended to distort the true picture of normal credit sources of farmer cooperatives, tobacco cooperatives were eliminated from the tables and figures pertaining to borrowed capital. With tobacco cooperatives eliminated, the net borrowed capital in use by all local and regional marketing and farm supply cooperatives is estimated at \$630 million in fiscal years closing in 1954.

This figure of borrowed capital in no way measures the annual peak borrowings of farmer cooperatives since it does not take into consideration seasonal credit demands. Farmer cooperatives used additional millions of dollars to finance their seasonal short-term capital needs. Very little of these seasonal borrowings were reflected in the \$630 million figure unless they happened to be outstanding at the close of the 1954 fiscal year.

The 1,157 cooperatives included in this study reported total loans outstanding at the close of fiscal year 1954 of over \$475 million. Excluding 11 regional tobacco cooperatives with C. C. C. loans of \$206 million, the sample became 1,146 associations reporting borrowed capital of \$269 million at the close of their 1954 fiscal year. Duplication caused by intercooperative borrowings was not eliminated in this \$269 million figure.

Of the sample of 1,146 cooperatives, 632, or 55 percent, had borrowed capital at the close of fiscal year 1954. Probably a much larger percent resorted to some short-term borrowings during the year which were repaid and hence did not appear on the balance sheets at the close of the fiscal year. A surprisingly large number of farmer cooperatives, over 500, were entirely free of borrowed capital.

Of 898 local associations 52 percent reported outstanding borrowed capital at the time the 1954 balance sheets were prepared. Of 248 regional associations 66 percent were borrowers.

Over \$244 million or 91 percent of the total borrowed capital, was borrowed by 163 regional associations, whereas, 469 local associations borrowed only 9 percent of the total, or less than \$25 million.

The percentage of marketing cooperatives reporting borrowed capital outstanding at the close of fiscal year 1954 was slightly lower than the percentage for farm supply associations. Fifty-eight percent of the farm supply cooperatives were borrowers compared with 54 percent of the marketing group.

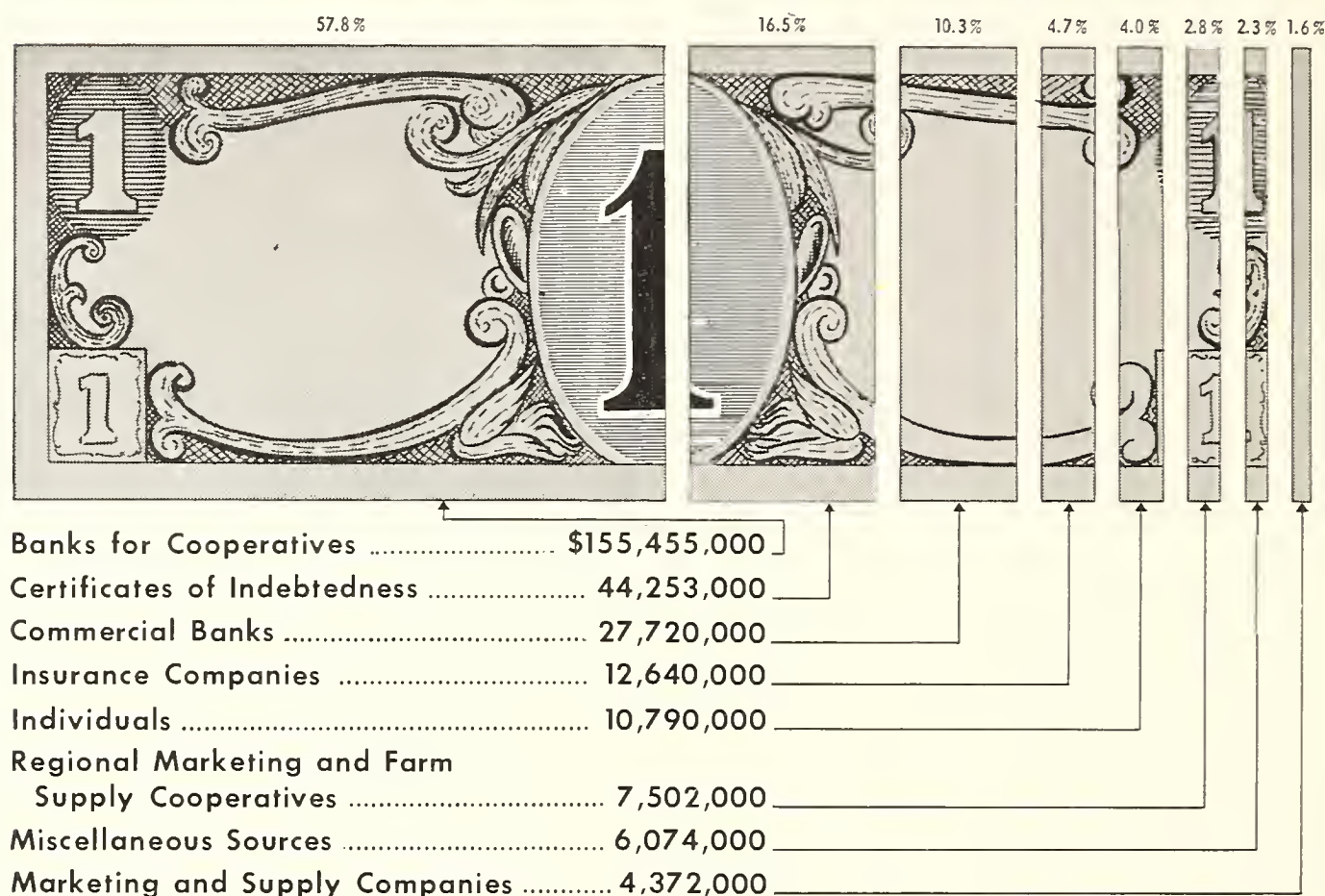
Sources and amounts of borrowed capital reported by different types of cooperatives included in the study varied substantially. Figure 6 shows that 632 farmer cooperatives borrowed \$268,806,000 capital outstanding at the close of fiscal year 1954. Duplication for intercooperative borrowing was not eliminated from this figure. As indicated by figure 6, cooperatives borrowed a little less than 3 percent of the total from other regional marketing or farm supply cooperatives. Duplication, thus, was not a significant factor in the figure of total borrowings.

Banks for cooperatives were supplying almost 58 percent of the outstanding borrowed capital in 1954. Of the 632 associations with borrowed capital 316 obtained all or a portion of it from banks for cooperatives.

Second to banks for cooperatives in importance as a source of credit were certificates of indebtedness bearing interest and having a definite maturity date. Ninety-three cooperatives had outstanding certificates of indebtedness amounting to a total of \$44 million at the close of fiscal year 1954. There were other associations reporting certificates of indebtedness as equity capital. Such certificates were reported as equity rather than borrowed capital for various reasons, but primarily when they did not carry a definite due date, were noninterest bearing, or were held mostly by members who acquired them as a form of patronage refund.

Figure 6

SOURCES OF 632 FARMER COOPERATIVES' BORROWED CAPITAL OUTSTANDING AT CLOSE OF FISCAL YEAR 1954¹



¹ALL TOBACCO COOPERATIVES EXCLUDED

Commercial banks supplied 10 percent of the total borrowed capital. Insurance companies and individuals supplied less than 5 percent each, and other sources still smaller percentages of the total.

A comparison of sources and amounts of borrowed capital by type of association is made in table 21. Marketing associations made more use of the banks for cooperatives than did farm supply associations. On the other hand, farm supply associations depended much more on certificates of indebtedness as a source of credit than did cooperatives in the marketing group. This sharp difference might have been due in part to the extensive facility capital requirements of most farm supply regional cooperatives and the uses they made of sale of certificates to finance these facilities.

Local associations, particularly in the farm supply group, leaned more heavily on commercial banks for credit

than regional cooperatives did. As might be expected, the small local associations also borrowed more of their capital from individuals than the larger regional associations.

Regional associations depended more on banks for cooperatives for credit than locals did.

Regionals in the farm supply group acquired about 30 percent of their borrowed capital by issuing certificates of indebtedness. Only 10 percent of borrowed capital of local farm supply associations was acquired from this source.

The credit picture for marketing cooperatives varies substantially by type of association or principal commodity handled. Table 22 shows the amounts and sources of borrowed capital of marketing cooperatives by commodity groups. The percentages borrowed are indicated in figure 7, which shows sources of credit separately for local and regional marketing associations in each group.

Table 21. - Sources of borrowed capital of 632 marketing and farm supply cooperatives, fiscal year 1954¹

Type of association	Number of associations	Number of associations with borrowed capital	Total borrowed capital	Percentage of borrowed capital from following sources:							
				Commer- cial banks	Banks for coop- eratives	Marketing and supply companies	Regional marketing and pur- chasing coopera- tives	Indivi- duals	Insurance companies	Certifi- cates of indebt- edness	Miscel- laneous sources
(Thousands)											
Marketing	790	427	\$151,743	11.92	66.74	.51	2.61	4.80	5.22	6.80	1.40
Locals	606	312	20,640	12.71	57.11	2.68	2.27	12.45	3.42	9.11	.25
Regionals	184	115	131,103	11.80	68.26	.17	2.66	3.59	5.50	6.44	1.58
Farm supply	356	205	117,063	8.22	46.28	3.07	3.03	3.00	4.03	28.99	3.38
Locals	292	157	3,927	15.94	41.80	.83	4.11	18.68	3.49	10.33	4.82
Regionals	64	48	113,136	7.95	46.44	3.15	2.99	2.45	4.05	29.64	3.33
All associations	1,146	632	268,806	10.31	57.83	1.63	2.79	4.02	4.70	16.46	2.26
Locals	898	469	24,567	13.22	54.66	2.39	2.57	13.45	3.43	9.30	.98
Regionals	248	163	244,239	10.02	58.15	1.55	2.81	3.07	4.83	17.18	2.39

¹Tobacco associations excluded. See page 29 for information on borrowed capital of tobacco cooperatives.

Table 22. - Sources of borrowed capital of 427 marketing cooperatives, by principal commodity handled, fiscal year 1954

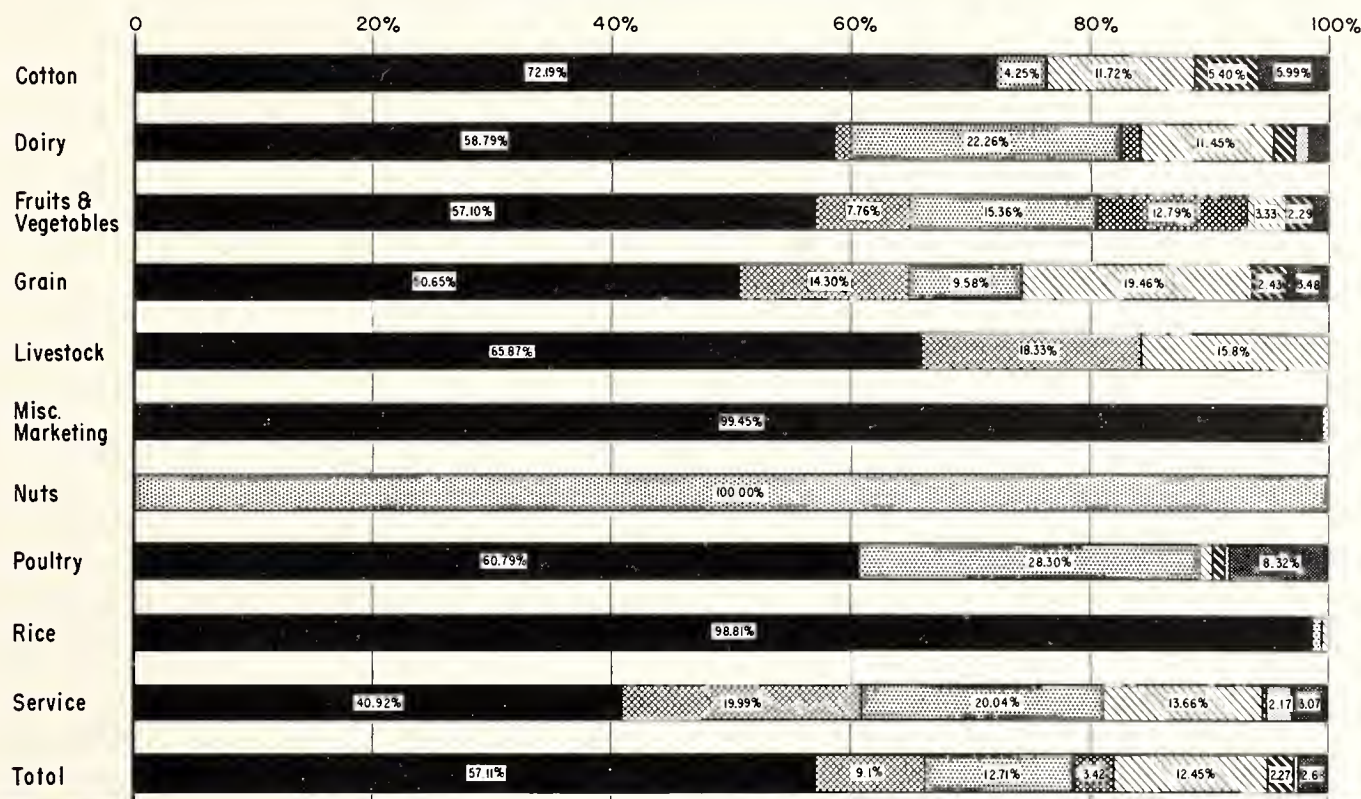
Principal commodity handled	Number of associations	Number of associations with borrowed capital	Percentage of borrowed capital from following sources:								
			Total borrowed capital	Commercial banks	Banks for cooperatives	Marketing and supply companies	Regional marketing and purchasing cooperatives	Individuals	Insurance companies	Certificates of indebtedness	Miscellaneous sources
			(Thousands)								
Cotton and products - total	66	47	\$17,988	1.04	94.68	.37	1.15	1.04	-	1.44	.28
Locals	47	34	1,110	4.25	72.19	5.99	5.40	11.72	-	-	.45
Regionals	19	13	16,878	.83	96.16	-	.87	.34	-	1.53	.27
Dairy and dairy products - total	215	97	21,418	29.17	46.26	.29	.56	3.69	.31	19.45	.27
Locals	172	77	2,841	22.26	58.79	1.69	1.80	11.45	1.68	1.17	1.16
Regionals	43	20	18,577	30.22	44.34	.07	.37	2.50	.11	22.25	.14
Dry beans and peas - regionals	5	4	671	-	100.00	-	-	-	-	-	-
Fruits and vegetables - total	75	32	36,990	10.15	65.62	.19	.32	1.16	21.27	1.08	.25
Locals	50	19	5,130	15.36	57.10	1.37	2.29	3.33	11.75	7.76	-
Regionals	25	13	31,860	9.31	67.00	-	-	.81	22.55	-	.29
Grain - total	293	173	46,218	5.96	73.99	.87	.97	10.84	(1)	7.04	.33
Locals	269	149	9,762	9.58	50.65	3.48	2.43	19.46	.02	14.30	.08
Regionals	24	24	36,456	5.00	80.24	.16	.58	8.54	-	5.09	.39
Livestock and livestock products - total	48	14	1,937	5.16	67.22	-	4.21	17.75	-	4.11	1.55
Locals	20	3	63	-	65.86	-	-	15.81	-	18.33	-
Regionals	28	11	1,874	5.34	67.26	-	4.35	17.82	-	3.63	1.60
Miscellaneous marketing - total	7	4	1,505	47.31	15.62	7.64	-	(1)	-	29.43	-
Locals	5	3	236	.53	99.45	-	-	.02	-	-	-
Regionals	2	1	1,269	56.03	-	9.06	-	-	-	34.91	-
Nuts - total	10	5	5,200	63.62	-	-	-	-	-	4.82	31.56
Locals	5	2	92	100.00	-	-	-	-	-	-	-
Regionals	5	3	5,108	62.97	-	-	-	-	-	4.91	32.12
Poultry and eggs - total	20	13	3,150	29.46	57.55	.73	.10	.09	-	12.03	.04
Locals	12	7	276	28.30	60.79	8.32	1.09	1.04	-	-	.46
Regionals	8	6	2,874	29.57	57.24	-	-	-	-	13.19	-
Rice - total	12	10	8,831	.08	99.43	.31	.13	.05	-	-	-
Locals	8	7	924	.76	98.81	-	-	.43	-	-	-
Regionals	4	3	7,907	-	99.50	.35	.15	-	-	-	-
Soybean processing - regionals	6	6	2,706	-	65.84	.18	6.10	17.85	-	7.44	2.59
Sugar and sugar products - regionals	6	6	2,049	-	58.57	-	-	-	-	41.43	-
Service - total	19	11	205	20.04	40.92	3.07	.15	13.66	-	19.99	2.17
Locals	18	11	205	20.04	40.92	3.07	.15	13.66	-	19.99	2.17
Regionals	1	-	-	-	-	-	-	-	-	-	-
Wool and mohair - regionals	8	5	2,875	1.88	.04	-	97.51	-	-	-	.57
Total ²	790	427	151,743	11.92	66.74	.51	2.61	4.80	5.22	6.80	1.40
Locals	606	312	20,639	12.71	57.11	2.68	2.27	12.45	3.42	9.11	.25
Regionals	184	115	131,104	11.80	68.26	.17	2.66	3.59	5.50	6.44	1.58

¹ Less than .005 percent
² Tobacco cooperatives excluded

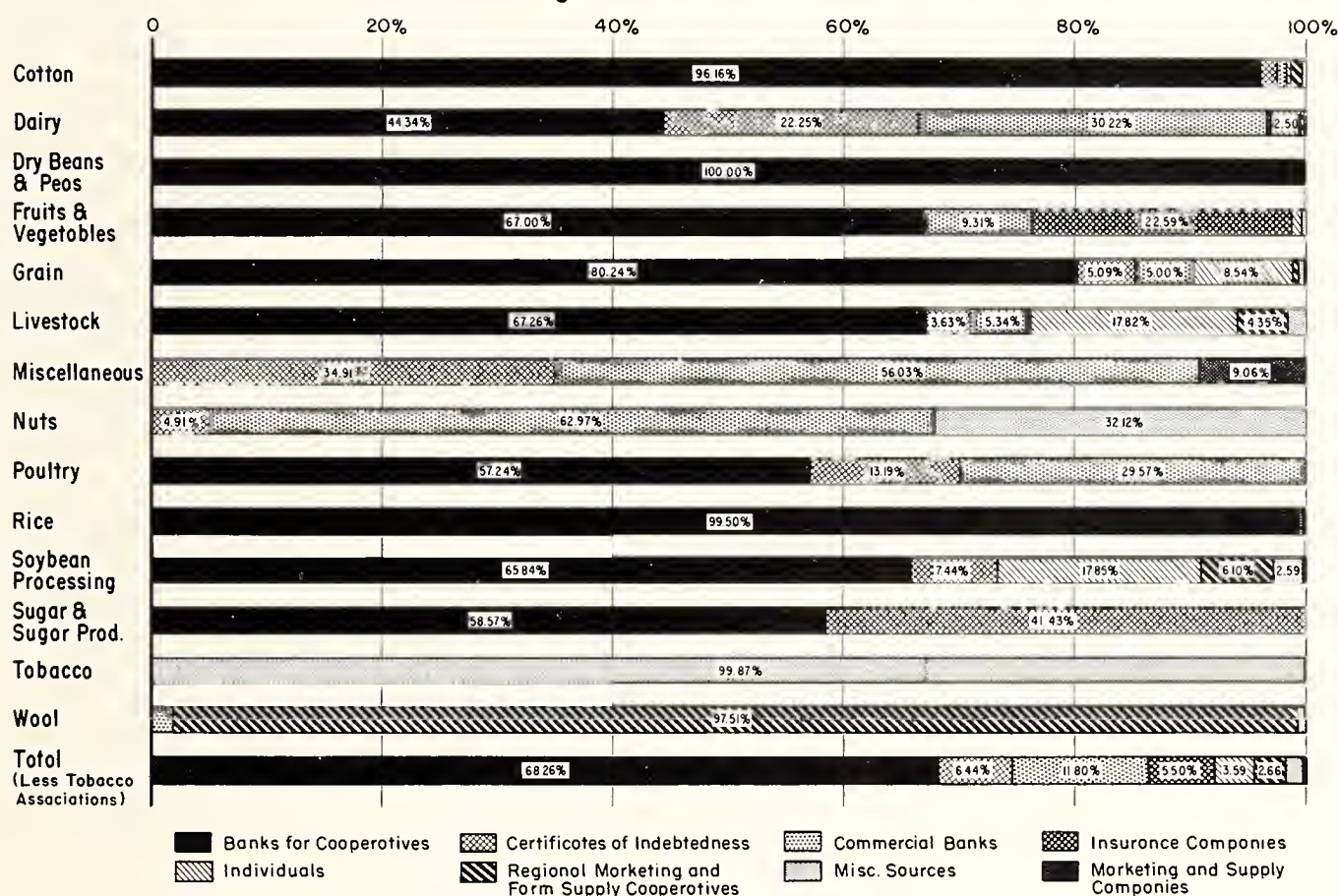
Figure 7

SOURCES OF BORROWED CAPITAL OF 427 MARKETING COOPERATIVES, BY PRINCIPAL COMMODITY HANDLED, FISCAL YEAR 1954

312 Local Associations



115 Regional Associations



Distribution of Net Savings and Margins

At the close of fiscal year 1954, it is estimated that 9,793 marketing and farm supply cooperatives, excluding bargaining organizations, had over \$332 million left for distribution after payment of authorized expenses (table 23). Duplications arising from intercooperative business were not eliminated in arriving

cluded in the study were slightly over \$132 million in 1954. This figure does not reflect the savings and value of services provided by many farmer cooperatives operating on a "pool" basis and having no margins for distribution at the end of the fiscal year. A separate evaluation of these savings would be difficult

Table 23. - *Distribution of net savings and margins of 9,793 farmer cooperatives, fiscal year 1954*¹

Type of association	Number of associations	Total net margins and savings	Percentage distribution of net savings and margins						
			Paid out in cash					Allocated as capital credits	Unallo- cated reserves
			Dividends on common stock	Dividends on preferred stock	Interest on other equity capital	Cash re- funds for current year	Federal and State income taxes		
(Thousands)									
Marketing	6,420	\$219,334	2.0	1.8	.2	30.8	2.7	59.4	3.1
Locals	6,103	149,431	2.2	1.7	.1	33.0	2.6	56.1	4.3
Regionals	317	69,903	1.5	2.2	.3	26.0	2.9	66.4	.7
Farm supply	3,373	112,714	3.7	4.6	.6	31.4	7.0	48.1	4.6
Locals	3,257	61,437	2.8	4.9	.1	36.0	4.4	45.7	6.1
Regionals	116	51,277	4.7	4.2	1.3	25.7	10.3	51.1	2.7
Grand total	9,793	332,048	2.6	2.8	.3	30.9	4.2	55.6	3.6
Locals	9,360	210,868	2.4	2.6	.1	33.9	3.1	53.1	4.8
Regionals	433	121,180	2.9	3.1	.7	25.9	6.0	59.9	1.5

¹This table includes estimates for all associations listed with Farmer Cooperative Service in 1954, except 284 bargaining organizations (page 2). Total net savings were computed as explained on page 45. The percentage distributions were based on the percentages of net savings reported by the 1,157 associations included in the survey (table 24).

at this estimate. When intercooperative duplications are eliminated, it is estimated that approximately \$275 million in net savings were left for distribution and allocation to farmer members in 1954. This is equivalent to over 3 percent savings on a volume of business estimated at \$8.5 billion for the 9,793 cooperatives.

As shown in table 24, the total net savings for the 1,157 cooperatives in-

because they were for the most part inextricably combined with sales returns.

Of total net savings, the 1,157 cooperatives retained \$76 million, or 58 percent, but allocated it to the credit of individual members. In all, 73 percent of the associations allocated at least a portion of 1954 net savings to members on the books of the cooperatives. Farmer cooperatives retain in the business a

Table 24. - *Distribution of net savings and margins of 1,157 cooperatives, fiscal year 1954*

Type of association	Number of associations	Total net margins and savings	Percentage distribution of net savings and margins						
			Paid out in cash					Allocated as capital credits	Unallo- cated reserves
			Dividends on common stock	Dividends on preferred stock	Interest on other equity capital	Refunds	Federal and State income taxes		
(Thousands)									
Marketing	801	\$78,397	1.7	2.1	.2	28.2	3.0	62.9	1.9
Locals	606	19,032	2.2	1.6	.1	33.3	2.5	56.1	4.2
Regionals	195	59,365	1.6	2.2	.3	26.6	3.1	65.1	1.1
Farm supply	356	53,866	4.4	4.3	1.1	27.3	9.4	50.3	3.2
Locals	292	8,138	2.8	5.0	.1	36.0	4.3	45.7	6.1
Regionals	64	45,728	4.7	4.2	1.3	25.7	10.3	51.1	2.7
Grand total	1,157	132,263	2.8	3.0	.6	27.8	5.6	57.8	2.4
Locals	898	27,170	2.4	2.6	.1	34.1	3.0	53.0	4.8
Regionals	259	105,093	2.9	3.1	.7	26.2	6.3	59.0	1.8

higher percentage of savings and net margins than ordinary corporations retain of their net profits.¹

The cooperatives included in this study paid out nearly 40 percent of their total net margins and savings in cash. However, not all of this 40 percent was patronage refunds paid to members. Nearly 5.6 percent of total net savings went to State and Federal governments in the form of income taxes. Another 6 percent was distributed as dividends on common and preferred stock and interest on other equity capital of the cooperative.

Cash refunds to members of the 1,157 associations included in the sample from 1954 operations amounted to \$37 million, or 28 percent of total net savings for the year. Of these cooperatives 34 percent distributed a portion of 1954 net savings to members as cash refunds.

Associations used almost \$8.5 million of 1954 net savings, or more than 6 percent of the total, to pay dividends on

common and preferred stock and interest on certificates of equity.

The cooperatives had \$163 million, 19 percent of their total 1954 equity capital, in the form of common stock. Dividends on this stock for fiscal year 1954 amounted to \$3½ million, or 2.8 percent of total net savings. About \$186 million, 22 percent of total equity capital of the cooperatives, was in the form of preferred stock. The 1954 dividends on preferred stock amounted to \$4 million--3 percent of total net savings for the year.

Less than 1 percent of total net savings was used in 1954 for payment of interest on certificates of equity. Most of these interest-bearing certificates bear 4 percent interest annually. However, only 22 percent of the equity capital allocated to members was interest-bearing. Certificates of equity with definite maturity dates were issued to members by cooperatives for most of this interest-bearing equity capital.

Federal and State income taxes took 5.6 percent of the total 1954 net savings. In all, 37 percent of the cooperatives in the sample paid Federal income taxes in 1954, amounting to over \$7 million, or 5.4 percent of total net savings. Another two-tenths of 1 percent of 1954 net savings went to pay State income taxes.

¹Tax returns to the Internal Revenue Service from 672,071 corporations in 1952 showed compiled net profits, after all taxes were paid, of \$19,588 million. Almost 57.5 percent of this (\$11,263 million) was used to pay dividends in cash and assets other than stock dividends. \$1,364 million, or 7 percent, was paid in stock dividends, and the other 35.5 percent (\$6,962 million) was retained by the corporations for operation and expansion purposes. (Source: U. S. Department of Commerce, Statistical Abstract of the United States, 1955.)

Of the associations 46 percent retained a portion of 1954 net savings in the form of "unallocated reserves." Unallocated reserves at the close of fiscal year 1954 amounted to \$3 million, less than 2½ percent of total net savings.

As the percentages in table 24 indicate, the distribution of net savings varied with the different types of cooperatives. This difference is illustrated in figure 8, which shows a separate distribution for local and regional as well as for marketing and farm supply associations.

Figure 9 shows a breakdown of the distribution of net savings in 1954 by local

and regional farm supply cooperatives. Figure 10 shows the same breakdown for marketing associations

Commodity analysis of net savings and margins for marketing cooperatives

The distribution of total net savings and margins by marketing associations varied significantly by commodity groups. Table 25 shows separate distribution data for local and regional marketing associations listed according to principal commodity handled.

Figure 8

DISTRIBUTION OF NET SAVINGS AND MARGINS OF 1,157 FARMER COOPERATIVES, FISCAL YEAR 1954

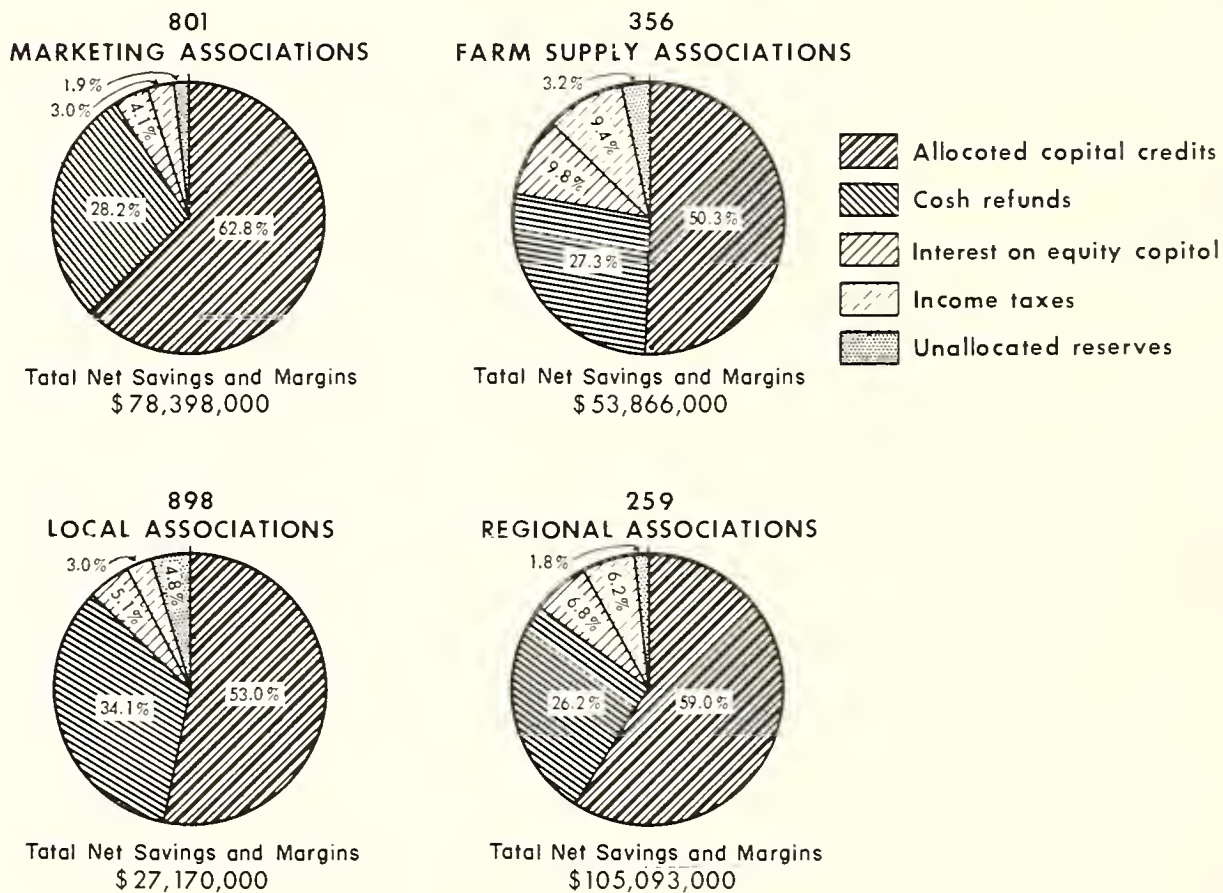


Figure 9

DISTRIBUTION OF NET SAVINGS AND MARGINS OF 356 FARM SUPPLY COOPERATIVES, FISCAL YEAR 1954

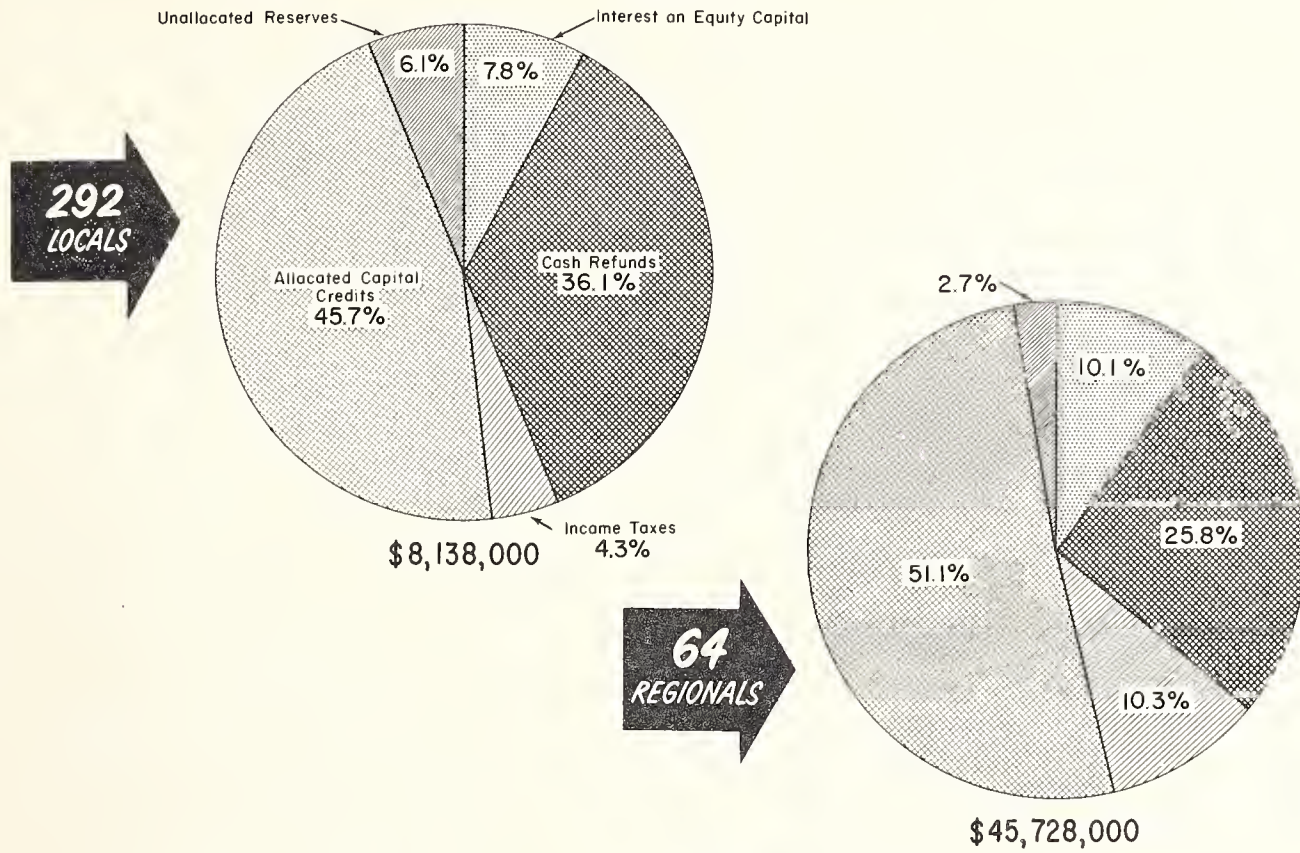


Figure 10

DISTRIBUTION OF NET SAVINGS AND MARGINS OF 801 MARKETING COOPERATIVES, FISCAL YEAR 1954

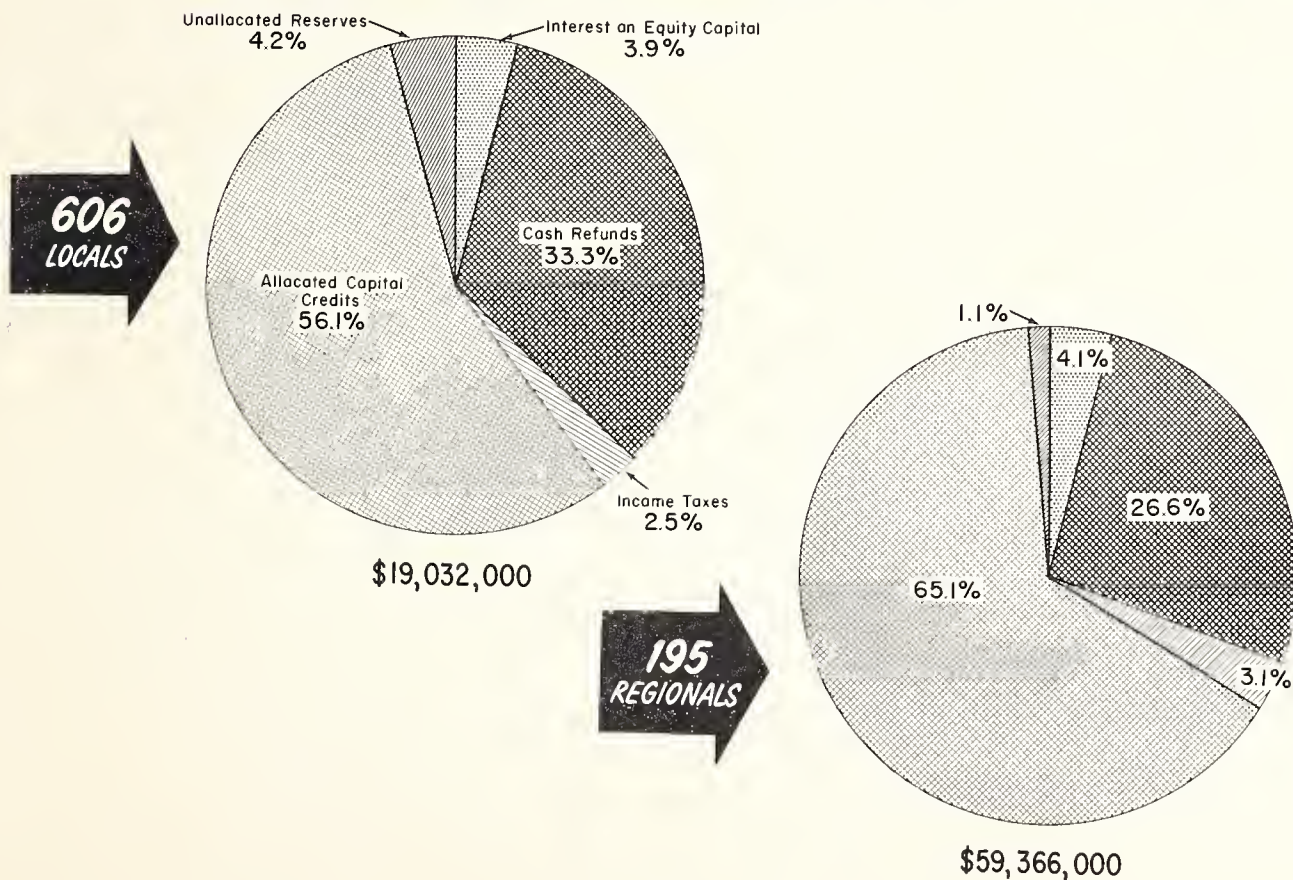


Table 25. - *Distribution of net savings and margins of 801 marketing cooperatives, fiscal year 1954*¹

Associations grouped according to principal commodity handled	Number of associations	Total net savings	Percentage distribution of net savings and margins				
			Allocated capital credits	Cash refunds	Interest or dividends on equity capital	Income taxes	Unallocated reserves
		(Thousands)					
Cotton and products - total	66	\$9,309	43.51	53.19	2.92	.30	.08
Locals	47	1,674	43.77	51.20	2.04	.39	2.60
Regionals	19	7,635	43.45	53.63	3.12	.28	-(.48)
Dairy and dairy products - total	215	19,230	69.95	24.22	3.20	.74	1.89
Locals	172	4,498	64.44	29.59	3.55	.66	1.76
Regionals	43	14,732	71.64	22.58	3.09	.76	1.93
Dry beans and peas - regionals	5	105	170.42	-	1.82	-	-(72.24)
Fruits and vegetables - total	75	13,200	83.32	16.71	2.85	.45	-(3.33)
Locals	50	3,578	50.26	45.22	.87	1.51	2.14
Regionals	25	9,622	95.61	6.11	3.58	.06	-(5.36)
Grain - total	293	21,416	55.61	22.77	5.49	8.95	7.18
Locals	269	7,599	57.67	23.82	6.21	4.61	7.69
Regionals	24	13,817	54.48	22.19	5.10	11.33	6.90
Livestock and livestock products - total	48	845	57.17	16.87	6.42	7.35	12.19
Locals	20	244	67.06	5.23	8.60	9.43	9.68
Regionals	28	601	53.18	21.57	5.54	6.51	13.20
Miscellaneous marketing - total	7	361	37.74	47.00	3.46	12.41	-(.61)
Locals	5	208	52.70	68.44	-	-	-(21.14)
Regionals	2	153	17.29	17.72	8.19	29.36	27.44
Nuts - total	10	2,688	79.66	20.43	-	-	-(.09)
Locals	5	843	34.86	65.14	-	-	-
Regionals	5	1,845	100.14	-	-	-	-(.14)
Poultry and eggs - total	20	3,980	85.90	12.64	1.07	.27	.12
Locals	12	259	91.81	3.86	4.20	.24	-(.11)
Regionals	8	3,721	85.48	13.25	.86	.28	.13
Rice - total	12	1,565	75.52	-	24.47	(2)	.01
Locals	8	64	76.43	-	23.36	.06	.15
Regionals	4	1,501	75.48	-	24.52	-	-
Soybean processing - regionals	6	434	105.64	-	5.35	10.33	-(21.32)
Sugar and sugar products - regionals	6	1,689	37.92	60.21	1.59	.28	-
Service - total	19	69	27.20	1.46	13.45	11.28	46.61
Locals	18	65	22.87	1.55	14.31	11.91	49.36
Regionals	1	4	95.26	-	-	1.42	3.32
Tobacco - regionals	11	3,535	8.13	85.87	5.99	.01	-
Wool and mohair - regionals	8	-(28)	-(176.78)	-	-	-	76.78
All marketing - total	801	78,398	62.89	28.20	4.08	2.97	1.86
Locals	406	19,032	56.11	33.27	3.96	2.48	4.18
Regionals	195	59,366	65.06	26.58	4.12	3.12	1.12

¹Operating results of each cooperative in each commodity group were distributed as reported by each association. The distribution figures for each commodity group were then totaled, losses being used to offset savings. The total net savings (or losses) of each commodity group were used as 100 percent and percentages computed based on the net distribution figures of each commodity group. In some instances savings of associations in some commodity groups were not sufficient to offset losses of other associations in the same group, which resulted in negative percentages.

²Less than .005 percent

Revolving Fund Plan of Financing

As a financing device the revolving fund plan is peculiarly and distinctively cooperative. Its use is regarded by many as the most effective plan for raising capital, maintaining cooperative practices, and keeping control of an association in the hands of its current members and patrons.

Managements of marketing and farm supply cooperatives in increasing numbers are examining and adopting the revolving capital plan of financing. Based on this study, it is estimated that at the close of fiscal year 1954 the 9,793 local and regional farmer cooperatives had in the neighborhood of \$1,191 million in revolving fund capital.

Through the revolving capital plan individual patron's contributions of capital are allocated on the books of cooperatives for return to them at a later date. Patrons are generally advised of their individual equities in cooperative revolving funds at the close of each fiscal year. When, in the judgment of the manager and board of directors, sufficient capital has been built up, a cooperative may use current capital retains, savings, or operating margins to retire the oldest outstanding revolving fund contributions.

The revolving fund plan of financing confines capital contributions to those who are patrons, requires contributions according to patronage, and limits this type of financing to those more currently patronizing the association. This acts as an effective means for developing and maintaining member interest and support.

How the plan works is readily apparent from a study of figure 11, revolving capital plan of a farmer cooperative. In this figure all items other than those labeled "borrowed funds" or "initial membership capital" represent annual savings for the indicated years. This chart is based on an association with its entire capital structure on a revolving fund basis. In order to simplify the illustration, the associations' capital requirements are assumed to be constant at \$30,000 each year from 1941 through 1954.

Operation of this association began in 1941 with initial paid-in membership

capital of \$15,000 and an additional \$15,000 in borrowed funds. In 1942, savings of \$5,000 enabled the association to pay off a like amount of borrowed funds, reducing outstanding loans to \$10,000. Additional savings of \$3,000 in 1943, \$4,000 in 1944, and \$3,000 in 1945 enabled the association to retire all its borrowed capital. Next step was retirement of initial membership capital, which was accomplished in 1946-48 through the use of retained annual savings in the manner described for the retirement of borrowed funds. With borrowed capital and initial membership capital repaid, the association was then in position to begin revolving its oldest outstanding capital contributions acquired through retaining in the cooperative the patronage refunds each year.

Of the 1,157 associations included in this study, 62 percent, or 717, were using the revolving fund method of operation to some extent in 1954.

Reports from these associations indicated no significant difference in use of revolving fund financing methods by marketing and farm supply cooperatives. However, revolving funds were more prevalent among the regional associations than among locals. As high as 71 percent, 185 out of 259 of the regional associations, reported revolving fund capital, compared with 59 percent, or 532 out of 898, in the local group.

The associations in the sample reported \$510 million as revolving capital in 1954. This figure represents the balance remaining in 1954 after allocations and repayments for the current year had been made.

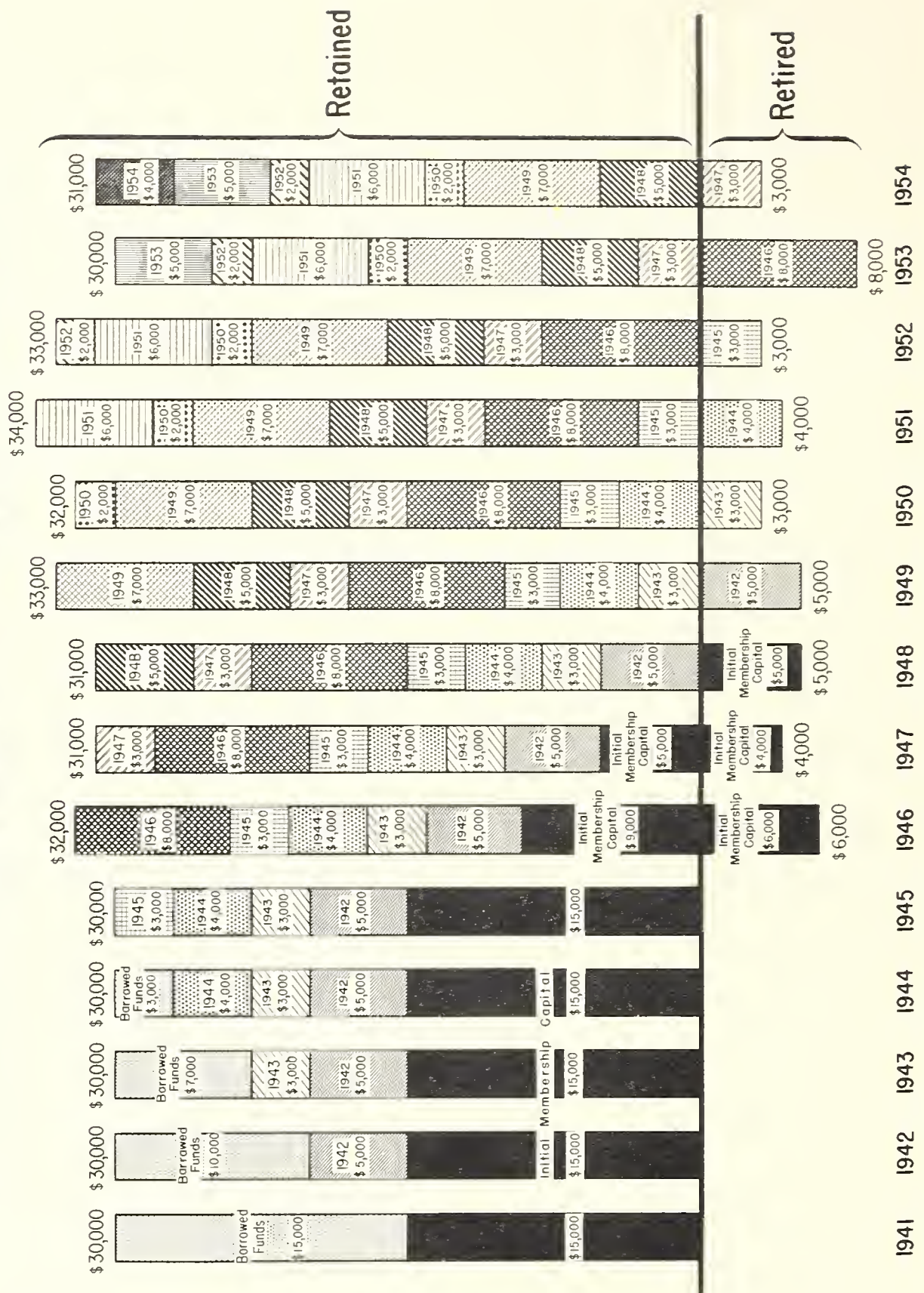
Approximately 84 percent of this \$510 million was in the 185 regional associations reporting revolving funds, leaving only \$82 million in revolving funds of 532 local associations.

Revolving funds of 493 marketing associations accounted for 64 percent of the total revolving capital, and those of 224 farm supply associations for the other 36 percent.

In order to obtain a picture of the extent to which the revolving fund method

Figure II

REVOLVING FUND PLAN OF A FARMER COOPERATIVE



of financing was used by cooperatives, the associations were asked to report revolving fund operations covering the 5-year period from 1949 through 1954.

Table 26 provides a summary of the revolving fund information reported by the associations used in this study. At the end of the 1949 fiscal year, the cooperatives had revolving fund capital aggregating \$313 million. During the 5-year period, 1949-54, \$357 million was added to revolving funds and \$159 million was paid out, leaving a balance of \$510 million in revolving funds at the close of fiscal year 1954. These data are shown separately in table 26 for local and regional associations in both the marketing and farm supply groups.

The changes in revolving fund capital reported in table 26 are more clearly portrayed in figure 12. The percentage of the total revolving capital represented by each type of cooperative is indicated for the 1949 balance, the 1950-54 additions and repayments, and the balance remaining at the close of fiscal year 1954.

During the 5-year period revolving fund capital grew by some 63 percent. This means that farmer cooperatives were accumulating revolving fund capital at a faster rate than they were paying it out. But it certainly cannot be concluded that revolving funds are a one-way street, because the 717 cooperatives in the sample

using revolving funds paid out over \$159 million in cash during the 5-year period.

Many of the 717 cooperatives using the revolving fund plan of financing adopted it during the 5-year period, 1950-54, and had not accumulated enough capital to enable them to start revolving. Other associations, while not already using the revolving capital plan, indicated it was their intention to follow the policy of retiring their oldest outstanding capital first, as soon as funds for this purpose became available.

The ratio of repayments for the period, 1950-54, to the balance at the end of fiscal year 1949, for all associations was 51 percent. The corresponding ratio for local associations was 53 percent. Comparing the marketing associations with the farm supply group, the ratio was 54 percent for the marketing cooperatives and 44 percent for cooperatives handling farm supplies.

Using the revolving capital balance at the close of fiscal year 1949 as a base, and dividing by the average annual repayments from 1950 through 1954, the revolving fund period was determined as a little less than 10 years for both regional and local associations. However, the funds in marketing associations revolved approximately every 9 years, whereas the funds in farm supply associations usually required over 11 years.

Table 26. - Revolving capital supplied farmer cooperatives by patrons and repaid to patrons, 1950-1954

Type of association	Number of associations	Number of associations with revolving capital	Balance at end of fiscal year 1949	Additions 1950-1954	Total of 1949 balance plus additions 1950-1954	Repayments 1950-1954	Balance remaining in 1954 after repayments
(Thousands)							
Marketing	801	493	\$205,155	\$234,645	\$439,800	\$111,683	\$328,117
Locals	606	351	35,025	44,126	79,151	19,659	59,492
Regionals	195	142	170,130	190,519	360,649	92,024	268,625
Farm supply	356	224	107,469	122,107	229,576	47,738	181,838
Locals	292	181	13,860	15,450	29,310	6,484	22,826
Regionals	64	43	93,609	106,657	200,266	41,254	159,012
All associations	1,157	717	312,624	356,752	669,376	159,421	509,955
Locals	898	532	48,885	59,576	108,461	26,143	82,318
Regionals	259	185	263,739	297,176	560,915	133,278	427,637

Figure 12
CHANGES IN REVOLVING FUND CAPITAL OF
717 FARMER COOPERATIVES, 1949-54

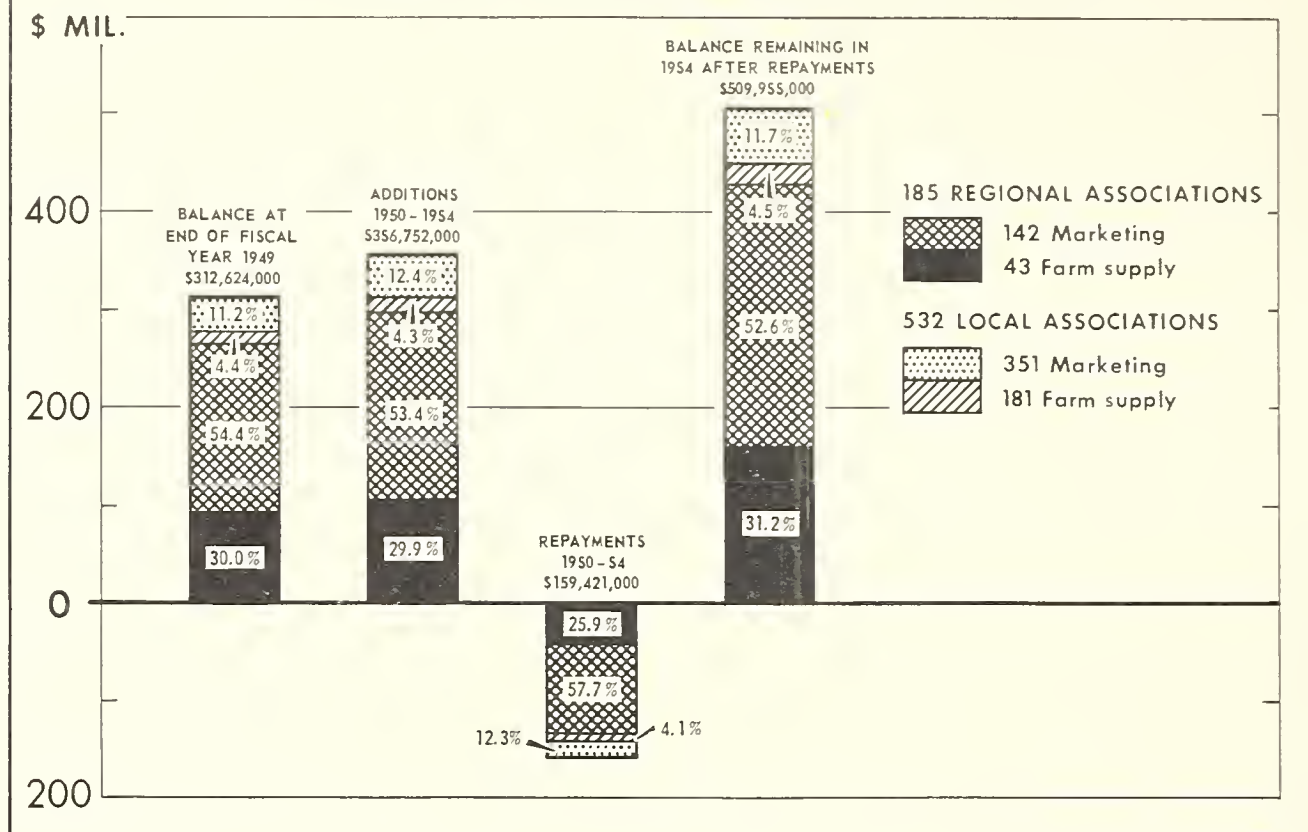


Table 27 shows amounts and changes in revolving capital of marketing associations, by commodity groups, for the period 1950-54.

The revolving fund period, on the average, for cotton associations was 5 years for locals and 8 years for regionals.

Members of dairy locals had to wait 9 years on the average for their funds to completely revolve, while members of dairy regionals could not expect return of their revolving capital for approximately 12 years.

The average revolving fund period for both local and regional fruit and vegetable associations was roughly 9 years.

Grain cooperatives revolved capital somewhat more slowly than the average for all marketing associations. The period for local grain cooperatives approximated 10 years, compared to 14 years for grain regionals.

The revolving period for livestock associations was about the same as for grain associations--11 years for locals and 14 years for regionals.

Regional poultry associations, on the other hand, required only 4 years on the average to completely revolve their capital, while the local poultry associations required a period of 10 years on the average.

Table 27. - Revolving capital supplied marketing cooperative by patrons and repaid to patrons, 1950-1954

Principal commodity handled	Number of associations	Number of associations with revolving capital	Balance at end of fiscal year 1949	Additions 1950-1954	Total of 1949 balance plus additions 1950-1954	Repayments 1950-1954	Balance remaining in 1954 after repayments
Cotton and products - total	66	47	\$11,071,094	\$24,577,160	\$35,648,254	\$7,665,995	\$27,982,259
Locals	47	33	1,781,004	4,650,213	6,431,217	1,954,062	4,477,155
Regionals	19	14	9,290,090	19,926,947	29,217,037	5,711,933	23,505,104
Dairy and dairy products - total	215	136	65,431,347	68,363,702	133,795,049	28,555,844	105,239,205
Locals	172	102	9,292,543	11,223,875	20,516,418	4,948,574	15,567,844
Regionals	43	34	56,138,804	57,139,827	113,278,631	23,607,270	89,671,361
Dry beans and peas - regionals	5	5	1,357,751	817,540	2,175,291	281,151	1,894,140
Fruits and vegetables - total	75	63	40,184,387	48,009,867	88,194,254	22,303,251	65,891,003
Locals	50	43	9,910,553	9,209,704	19,120,257	5,302,103	13,818,154
Regionals	25	20	30,273,834	38,800,163	69,073,997	17,001,148	52,072,849
Grain - total	293	159	54,483,295	49,242,528	103,725,823	21,611,519	82,114,304
Locals	269	137	10,458,334	14,374,948	24,833,282	5,461,668	19,371,614
Regionals	24	22	44,024,961	34,867,580	78,892,541	16,149,851	62,742,690
Livestock and livestock products - total	48	17	2,068,064	1,701,100	3,769,164	794,345	2,974,819
Locals	20	7	297,073	308,545	605,618	139,842	465,776
Regionals	28	10	1,770,991	1,392,555	3,163,546	654,503	2,509,043
Miscellaneous marketing - total	7	4	466,378	564,321	1,030,699	283,791	746,908
Locals	5	3	399,608	516,483	916,091	216,423	699,668
Regionals	2	1	66,770	47,838	114,608	67,368	47,240
Nuts - total	10	8	5,604,249	6,423,780	12,028,029	4,220,868	7,807,161
Locals	5	5	1,369,227	2,063,046	3,432,273	1,089,275	2,342,998
Regionals	5	3	4,235,022	4,360,734	8,595,756	3,131,593	5,464,163
Poultry and eggs - total	20	17	14,719,399	23,354,984	38,074,383	19,889,358	18,185,025
Locals	12	9	972,121	976,317	1,948,438	501,917	1,446,521
Regionals	8	8	13,747,278	22,378,667	36,125,945	19,387,441	16,738,504
Rice - total	12	8	2,232,243	3,655,103	5,887,346	1,162,654	4,724,692
Locals	8	6	416,775	715,875	1,132,650	30,970	1,101,680
Regionals	4	2	1,815,468	2,939,228	4,754,696	1,131,684	3,623,012
Service - total	19	7	132,304	100,195	232,499	14,487	218,012
Locals	18	6	127,329	87,535	214,864	14,487	200,377
Regionals	1	1	4,975	12,660	17,635	-	17,635
Soybean processing - regionals	6	6	2,276,132	2,248,413	4,524,545	1,996,891	2,527,654
Sugar and sugar products - regionals	6	4	2,552,303	4,125,582	6,677,885	2,662,701	4,015,184
Tobacco - regionals	11	5	365,062	1,946,347	2,311,409	148,694	2,162,715
Wool and mohair - regionals	8	7	2,210,701	-(484,858)	1,725,843	91,513	1,634,330
All marketing - total	801	493	205,154,709	234,645,764	439,800,473	111,683,062	328,117,411
Locals	606	351	35,024,567	44,126,541	79,151,108	19,659,321	59,491,787
Regionals	195	142	170,130,142	190,519,223	360,649,365	92,023,741	268,625,624

Appendix

To implement the request of the National Council of Farmer Cooperatives and the American Institute of Cooperation for a study of the financing methods used by farmer cooperatives, a sample was carefully selected from all marketing and farm supply cooperatives listed with the Service.

Cooperatives listed with Farmer Cooperative Service are classified either as marketing or farm supply associations depending on their principal type of business. Marketing cooperatives include those associations whose business is predominantly marketing farm products for patrons, with more than 50 percent of their total annual dollar volume derived from the sale of such products. Farm supply cooperatives are those whose farm supply business accounts for more than 50 percent of their total annual dollar volume.

Many cooperatives handle more than one commodity and provide both marketing and purchasing facilities for farmer members. Such associations are classified according to the predominant product in their business volume. Of the 10,057 associations listed with Farmer Cooperative Service in 1954, 6,684, or 66 percent, were classified as marketing cooperatives and subdivided by commodity groups. The other 3,373, or 34 percent, were classified as farm supply cooperatives. Service cooperatives, those associations performing such functions as trucking, drying, picking, or similar services related to marketing or farm supply activities, which made up only 2 percent of the total, were included with marketing associations.

The sample of 1,157 cooperatives composed of 69 percent marketing associations and 31 percent farm supply associations, conformed with the breakdown and classification made by Farmer Cooperative Service of all cooperatives.

As shown in table 1, on page 2 cooperatives were also classified as bargaining, local, or regional. Each classification is defined for purposes of this report as follows:

Bargaining association. A collective bargaining association negotiates with

distributors, processors and other buyers over price, quantities, grade, terms of sale, and other factors involved in selling members' farm products. Its primary function is to bring buyer and seller together to contract for the sale of members' products.

Local association. A local association is essentially a local cooperative providing cooperative services for a community, a county, or even several counties. Individual farmers are the members of these local cooperatives. Local associations usually perform a limited number of the first steps involved in marketing. In the case of farm supply associations, practically all sales are at the retail level. Local associations may or may not be affiliated with other cooperatives.

Regional association. A regional cooperative is one that usually serves a district comprising a number of counties, an entire state, or a number of states. Types of associations classified as regional for purposes of this report are described as follows:

1. All federated associations. (Cooperative organizations whose membership is composed of two or more local associations organized to purchase supplies or market products for their member locals. Individual farmers are not members of federated associations, but are members of the local associations that comprise the regional. Regional federations may be members of other federated associations.)

2. Centralized associations usually serving more than 8 or 10 counties. (A regional centralized association is structurally like a small-scale local association--individual farmers make up the membership. There are no autonomous local associations.)

3. Cooperatives with large volumes which are strictly neither federated nor centralized as they have both local cooperatives and individual farmers as members.

4. Some associations with small business volume which market farm products or sell supplies to both local associations and individual producers, or do business in more than one State.

Since most bargaining organizations operate with very little in the way of facilities or capital, they were not considered appropriate for a study of methods and procedures used in financing. Therefore, cooperative bargaining associations were intentionally excluded from this study.

As shown in table 1, 264 bargaining cooperatives were listed with Farmer Cooperative Service in 1954. Over 79 percent of these were dairy bargaining organizations. Sugar beet and fruit and vegetable bargaining associations accounted for the other 21 percent. Farmers' total equity capital in these 264 bargaining cooperatives was estimated at less than 23 million dollars in 1954, only one percent of total farmers' equities in the 10,000 odd cooperatives listed in 1954.

The 1,157 associations included in the survey were selected entirely from the lists of local and regional associations maintained by the Service. The sample of local associations is a random sample selected from the 1954 lists of local associations. A card, filed alphabetically by states, is maintained for each association by the association groups shown in table 1. In selecting the sample to be surveyed, every fifth card in each group was included. Therefore, the local association sample selected was nationwide in scope and included representative marketing and farm supply associations.

Since less than 5 percent of all marketing and farm supply cooperatives are classified as regional associations, the entire group was included to insure a representative sample.

Early in 1955 a detailed questionnaire was mailed to all the regional associations and to approximately 19 percent of the local associations. This meant that mail questionnaires were sent to 405 regional cooperatives and 1,765 local cooperatives. Useable replies were received from 1,157 cooperatives--259 regionals and 898 locals; an overall return in excess of 53 percent and a return of 64 percent for regionals and 51 percent for locals.

While regional associations represent less than 5 percent of all associations, they represent 22 percent of the total

sample. The sample is thus weighted rather heavily with regionals, and should not be regarded as a representative sample of all cooperatives. All information has been tabulated separately for local and regional associations in recognition of this fact.

National Estimates

Most of the statistical data and computations included in this preliminary report are actual data reported by the 1,157 associations which submitted useable questionnaires. However, parts of these data were expanded to furnish national estimate totals for 9,793 marketing and farm supply cooperatives--all those listed with Farmer Cooperative Service in 1954 except 264 bargaining associations which were intentionally omitted (table 1).

National estimates were computed separately for local and regional associations.

In arriving at national estimates for the regional associations, questionnaire data were used for the 259 regional associations in the sample and individual estimates based on reports and other data on file were made for the other 174 regional associations listed with the Service in 1954. Individual estimates of total assets, borrowings, equity capital, net savings, and revolving funds were made for each regional association listed when current data were not available. This was done by making adjustments in earlier reports from the association or comparing the association with similar associations doing approximately the same amount of business of a like nature.

Individual estimates could not be made for each of the 8,462 local associations listed with FCS in 1954 and not included in the survey. Therefore, the reports from the 898 local associations submitting useable questionnaires had to serve as a basis for expanding the data to cover the entire 9,360 local associations listed in 1954. This was accomplished as follows:

Frequency distribution tables were prepared, based on volume of business groupings, for each commodity and farm supply group of local cooperatives listed

with FCS in 1954. Data from the sample associations were fitted into these frequency distribution groupings, and an average of assets, borrowings, equity capital, net savings, and revolving funds for each volume of business group, by commodities, was computed. These averages were then applied to the total number of associations in each group to arrive at estimated total assets, borrowings, equity capital, and revolving funds for the 9,360 local associations.

National estimates for the regional and local associations, for total assets, borrowings, equity capital, net savings, and revolving funds, were then added. Duplications arising from intercooperative investments, borrowings, and savings, have not been eliminated from these figures. Thus, the national estimates shown in this report represent gross figures for the local and regional cooperatives rather than net figures, unless otherwise indicated.

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